Egypt ...... E£2.25	Lebanon .. SL125.00	Switz SFr2.30
Finland Fmk7.00	Lux LFr48	Taiwan .... NT$85
France FFr6.50	Malaysia ... Rlo4.25	Thailand Bht50
Germany ... DM2.90	Mexico Pes300	Tunisia ... Din0.800
Greece Dr120	Morocco Dh6.00	Turkey 1600
Hong Kong ... HK$12	Neth Fl3.00	UAE Dh6.50
India Rup15	Norway ... Nkr10.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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French elections: a gloomy meeting of minds, Page 24

World News

Byrd will not seek to renew major Senate post

Robert Byrd of West Virginia, the US Senate majority leader, said he would not seek re-election to the post.

His decision to step down *opens up* a race for the US Senate's most powerful and influential job among the upper chamber's 54 Democratic senators.

Chinese enterprise

The Chinese constitution was amended again to reflect the Communist Party's new enthusiasm for private enterprise and a property market. Page 26

Israeli clampdown

Israeli troops wounded more than 40 people during violent protests in the Gaza Strip despite extraordinary precautions taken to prevent unrest following the deportation on Monday of eight Palestinian activists. Page 3

W German complaint

The West German Iron and Steel Federation complained to the European Commission over what it believed to be illegal state subsidies to the British and Italian steel industries. Page 2

Guinness remands

Six men charged with a total of 92 criminal offences in the Guinness affair appeared in court in London and were remanded on bail until *June 1*. Page 9

Bangladesh strike call

Bangladesh opposition parties called for an eight-hour general strike on April 25 when President Ershad was expected to address the opening session of parliament. Meanwhile Ershad lifted the state of emergency imposed last November.

Shipyard closed

Strikes forced the temporary closure of car plants and a shipyard of the Daewoo group, one of South Korea's *leading* companies. Page 3

Colombia massacre

Gunmen massacred nine farm workers and kidnapped at least 15 others in the Uraba region, near a plantation where 21 workers were killed last month.

Benin coup foiled

President Mathgieu Kerekou of Benin told visitors that 15 army officers tried to overthrow him last month because they had lost financial privileges. The fate of the plotters was not known.

Bombs in Barcelona

Four small bombs exploded near local government offices in Barcelona, causing damage but no injuries. Police suspected a Catalan separatist group was responsible.

Judges accountable

Italy approved a law making judges financially responsible for their mistakes – and a television star wrongly convicted of drug trafficking and Mafia association said he would sue the state for L100bn ($80m).

Venezuela school strike

About 5m schoolchildren stayed at home as Venezuelan teachers called a one-day strike to protest against the Government's failure to honour their collective contract.

Kidnap admitted

A renegade Irish nationalist guerrilla known as the "Border Fox" admitted kidnapping and maiming an Irish millionaire's son-in-law. The victim, a dentist, had his little fingers hacked off with a hammer and chisel in a ransom bid which *subsequently* failed.

Hong Kong 'Expo'

A group of Hong Kong businessmen proposed Hong Kong as the venue for a world exposition immediately after the British colony *is returned to* China in 1997.

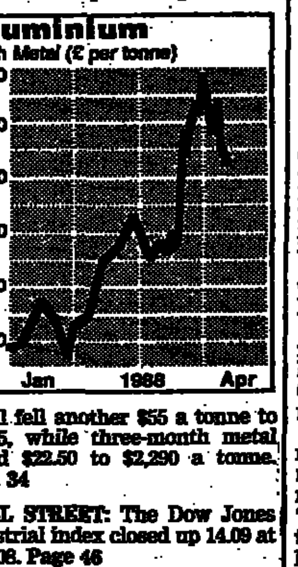
Business Summary

Glaxo, ICI to invest £2bn in drug projects

GLAXO AND ICI, Britain's two biggest pharmaceutical companies, are to spend £2bn ($3.7bn) on research and production facilities in Britain and overseas during the next decade. Glaxo pays to stay in the race, Page 11; Lex, Page 26

CANNON GROUP, hard-pressed US film company, has agreed to a complex $100m financial rescue taking ultimate control of the business away from Menahem Golan and Yoram Globus, who founded the company. Page 27

ALUMINIUM prices fluctuated on the London Metal Exchange as the market attempted to stabilise after recent sharp losses. The price for 99.7 per cent pure cash metal fell another $55 a tonne to $2,645, while three-month metal added $22.50 to $2,290 a tonne. Page 34



WALL STREET: The Dow Jones industrial index closed up 14.09 at 2110.08. Page 46

TOKYO: High-technology stocks rallied in late trading after an uneventful session, helping the Nikkei average reach another high to close 5.97 higher at 26,930.84. Page 46

LONDON: Nervous trading followed uncertainty in currency markets and the FT-SE 100 index eased 5.2 to 1,805.3. Page 42

DOLLAR closed in New York at DM1.6890; SFr1.3990; FFr5.7250; and Y126.70. It closed in London at DM1.6875 (DM1.6865); SFr1.3980 (SFr1.3960); FFr5.72 (FFr5.7150); and Y126.55 (unchanged). Page 35

STERLING closed in New York at $1.8465. It closed in London at $1.8510 ($1.8540); DM3.1225 (DM3.1275); SFr2.5875 (unchanged); FFr10.5875 (FFr10.5950); Y234.25 (Y234.50). Page 35

PREUSSAG, West German metals group, and Penarroya of France are discussing potential co-operation, Preussag said. Both companies are among Europe's largest zinc producers. Page 26

COCA-COLA, leading US soft drinks company, reported net income of $210.5m, 14 per cent up on the first quarter of 1987. Page 27

AIR CANADA, Canada's national airline, is to be privatised, but the Government will retain a 55 per cent controlling equity stake. Page 27

VAUXHALL, British subsidiary of General Motors of the US, has achieved a dramatic financial turnround with a net profit of £31m ($57.3m) in 1987 from a net loss of £61.7m in 1986. Page 9

CHINA has opened the way for increased trade with the Soviet Union by allowing five river ports to trade directly with Soviet cities. Page 4

ROLLS-ROYCE, UK company, has won new orders for aero-engines worth over £60m ($111m), including spares. Page 4

SWISS Banking Commission has carried out an investigation to ascertain whether Swiss banks acted irregularly in connection with the assets of ex-President Ferdinand Marcos of the Philippines. Page 30

VOEST-ALPINE, Austria's state-run steel and engineering group, has won a contract to build a large steel complex for the Posco company in Kwangyang, South Korea. Page 4

Jackson action moves the spirit at 145th and Convent

BY JAMES BUCHAN IN NEW YORK

AS HARLEM goes, Convent Avenue and 145th Street is a nice, nice neighbourhood.

Down the hill on each side are burned-out lots, boarded shop*fronts and persistent, grinding* menace, but up here a couple of fruit trees are flowering on the sidewalk. From the dark doors of the stone Baptist Church on Convent (Rev Clarence Grant, Pastor) old men in threadbare suits and women in ratty fur come tripping down the steps. It's a neighbourhood *teetering* between respectability and chaos, a place of poor people struggling to hang on to jobs, houses, children. And it's crazy for Jesse.

You can hear the chanting from blocks away. "We want you, Jesse. We want you, Jesse," the people are shouting. All across 125th Street, they are packed in by police lines, craning to catch a sight of the Democratic candidate as he comes out of the church. Young men risk their Calvins and Reeboks to shin up *the* church railings. "Come out, Prez. Come out here, you," they shout.

"I never seen anything like this," said Mr James Follea, an old man with a watch-chain on his wedding waistcoat and a high-school tie-pin. Not for Adam Clayton Powell Jr, the great *preacher at the Abyssinian* Church on 138th Street, maybe not even for Dr Martin Luther King. "Oh sure, he's going to win," says Mr Follea.

A week away from the crucial New York state primary, the Rev Jesse Jackson is not taking his people for granted. The blacks may be 25 per cent of the New York primary electorate, and rock solid for Jesse, but he has already staged three rallies in black churches in the city: in *Brooklyn*, at the Abyssinian Church and, on Monday evening, at the Baptist on Convent.

This is Jesse the preacher. He stands below a red-lit crucifix, erect over the sea of heads in the dim nave, dandified in his perfect grey suit, eloquent as nobody else in this campaign. Later this *evening he will talk to a vast* union meeting about budget deficits and the export of jobs overseas and still exhilarate his audience of garment-workers, teamsters and hospital orderlies. Here his speech is shorn down to a hypnotic, rhythmical litany of

Continued on Page 26

Democratic presidential rivals Albert Gore (left), Jesse Jackson (centre) and Michael Dukakis shake hands before a debate yesterday in which they clashed on the Middle East. Page 4

Hijacked airliner refuelled after 12 hostages released

BY TONY WALKER IN LARNACA AND ANDREW GOWERS IN LONDON

THE HIJACKED Kuwaiti airliner held at Larnaca Airport was last night refuelled and waiting for take-off to Algeria, after the hijackers freed 12 hostages.

All but one of the released hostages walked to waiting ambulances.

Cypriot Government spokesman Mr Akis Fantis said no more hostages would be freed in Cyprus. "It was not a compromise," he said.

*The hijackers issued a state*ment saying the 12 had been released as "a present to the Cypriot authorities." It continued: "Our struggle which we began this week on the Plane of the Martyrs was only a link in the chain of the actions of the Mujahideen of the world . . . So as a gift to the Palestinian revolution we announce the release of two Palestinians from the plane carrying Jordanian passports . . . . We have released 10 more passengers as a humanitarian gesture of goodwill . . . "

With negotiators from the Palestine Liberation Organisation holding protracted discussions on board the aircraft, the Boeing's engines were started. Cypriot authorities declined to comment on what was happening.

As the fuel tanker headed out for the aircraft an explosion was heard, but this was being attributed to a backfire in one of the aircraft's engines. The hijackers had earlier said they had donned death shrouds and were prepared to blow up the airliner.

The developments followed a quickening in the tempo of negotiations late in the day. Last night, after the expiry of several deadlines set by the hijackers, the PLO representatives shuttled repeatedly between the hijackers and the terminal building, where they consulted Kuwaiti officials.

In Kuwait, Mr Yassir Arafat, the PLO chairman, said that Algeria had agreed to send an official delegation led by the Interior Minister to join the talks, prompting suggestions that the aircraft might fly to Algiers. However, Mr Arafat's statement caused surprise among government officials in Algiers who said they knew "of no such delegation."

The late afternoon negotiations followed a melodramatic statement by the hijackers, who are believed all to be Shia Moslems, in which they said they had decided to "wear our death shrouds under our clothes" and had renamed the aircraft "The Plane of the Great Martyrs."

Reacting to Kuwait's latest rejection of their demand for the release of 17 militants held in Kuwaiti jails, the hijackers said that "death with glory is better than life in darkness."

The sombre tone of the communique prompted speculation that the hijackers might either have been preparing themselves for collective suicide, or were seeking another avenue to put pressure on the Kuwaitis.

The communique was not accompanied by any fresh demand for fuel or for the release of the 17 prisoners, most of them Shia Moslems. However, by the afternoon the hijackers had again demanded fuel and the pattern of negotiations involving PLO intermediaries was resumed.

One acute moment of drama occurred yesterday afternoon when a military transport aircraft arrived from Athens and passed relatively close to the hijacked Boeing 747. The hijackers threatened to open fire on the plane because of fears that it was involved in a military operation against them, but were persuaded it was on a routine flight.

In their lengthy Arabic statement, the hijackers condemned Kuwait's stubbornness. They accused the Kuwaiti regime of being a "tool in the hands of the American oppressor . . . " A hostage from the plane made a brief statement to the control tower urging the Kuwaiti Government to "try and hand over the individuals who are wanted and number 17."

Speaking haltingly, Mr Ahmed Durani, who described himself as an employee of the Kuwaiti Fire Department, said: "I urge the *Kuwaiti Government to release* the 17 because we are tired and we've been at it for 10 days."

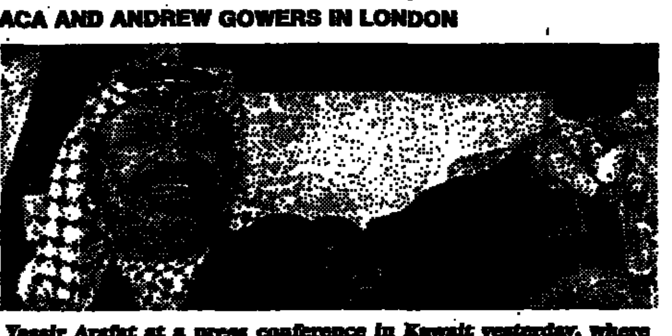
The hijackers, who have murdered two passengers they described as Kuwaiti officers, commandeered flight KU422 from Bangkok to Kuwait early last Tuesday and diverted it to Mashhad in north-east Iran where it remained until Friday.

The aircraft landed at Larnaca Airport late on Friday after being refused permission to land at Beirut. The hijackers have been demanding fuel to fly to a "neutral" country. Kuwait has insisted that agreement to refuel the aircraft be withheld so that it remains on the ground and negotiations continue.

Mr Mohammed Jawad Larijani, Iran's Deputy Foreign Minister, told a London news conference that Kuwait had last week rejected an Iranian offer to storm the aircraft while it was at Mashhad.

Mr Larijani also said the airliner would not be allowed to fly back to Iran if the Cyprus authorities agreed to refuel it.

Mr Larijani's refuted claims that Iran was directly responsible for the hijacking.



Yassir Arafat at a press conference in Kuwait yesterday, where he said Algeria had agreed to send a delegation to join the hijack talks

INSIDE

- Cult aboard the 'Plane of Great Martyrs'
- Cyprus at the crossroads in relations with neighbours
- Odds stacked against success of storming aircraft

Page 3

Airbus partners adopt plans for reform

By Peter Bruce in Madrid

THE FRENCH, West German, British and Spanish governments have enthusiastically embraced proposals for a sweeping reform of management and industrial practice at Airbus Industrie, the heavily subsidised European aerospace consortium, in an attempt to cut its costs and make it profitable.

Ministers from the consortium's four member countries, meeting in Madrid yesterday, quickly reached agreement on proposals for reform in a report prepared by a panel of four experts and commissioned by the four consortium governments.

The ministers have instructed the industrial partners in Airbus – Aerospatiale of France, Deutsche Airbus (Messerschmitt-Bölkow-Blohm) of West Germany, British Aerospace and CASA of Spain – to present detailed plans for implementing the proposals by the next ministerial meeting in Hanover on May 5.

The report calls for the Airbus supervisory board to be reconstituted as the main instrument of policy control, and for the formation of a new executive board, whose senior executives need not necessarily be from the four partner companies.

Day-to-day management of the group should move as closely as possible that of a public company, say the experts, but they suggest that consideration should be given to making Airbus Industrie a public company from 1992.

Ministers indicated yesterday that the Airbus supervisory board could be dramatically reduced in size – from 20 members to just the chiefs of the four industrial partners and a "go-getting" chairman.

Continued on Page 26

Bank Leu censured for role in Guinness affair

BY JOHN WICKS IN BERNE

THE SWISS Banking Commission has reprimanded a Swiss bank for its part in the Guinness affair. The bank, although not named in the commission's annual report, is the Zurich-based Bank Leu, one of Switzerland's five largest banks.

The commission – the government watchdog over the country's banking industry – opened an investigation in January last year, when it became known that Bank Leu had bought Guinness and Distillers shares worth some £200m ($370m) on behalf of Guinness in a buy-back deal.

The commission's 1987 report, issued in Berne yesterday, says that the bank was charged with having carried out "very substantial" transactions without having clarified their commercial connotations or their admissibility under English law.

In this connection, the commission states that an internationally active Swiss bank, in the case of transactions on foreign stock exchanges, has "to adhere to the local laws and customs, so long as these are not contrary to the Swiss legal system.

"Furthermore, participation in the manipulation of securities prices is inadmissible under Swiss law and incompatible with sound bank management."

According to the commission, decisions by the Bank Leu board and its committee were not taken with adequate care, while the aggregate risk involved in the commitment – which exceeded limits laid down by Swiss banking ordinances – was disclosed to the commission only after a delay.

However, the commission adds that it did not need to take any steps to restore "legality," because the bank itself had taken the necessary measures regarding organisation and personnel.

Bank Leu has declined to comment on the exact nature of these measures. Earlier this year, however, Dr Arthur Fürer, the former chairman, had stressed that a recent reshuffle of top management had no connection with the Guinness case.

Dr Hermann Bodenmann, the Banking Commission's chairman, said in Berne that the measures taken had followed discussions with the Leu board and included a redrafting of the responsibilities of the board committee.

Asea Brown Boveri pays $500m for venture with Westinghouse

BY SARA WEBB IN STOCKHOLM AND ANATOLE KALETSKY IN NEW YORK

ASEA BROWN Boveri (ABB), the newly-merged Swedish-Swiss concern which is the world's largest heavy engineering group, has agreed to pay $500m to Westinghouse Electric of the US to set up two joint ventures in the power generation and the transmission and generation fields.

ABB's prime motive is to secure a stronger position in the North American electrical engineering market, using the Westinghouse name to win contracts from US utilities. It believes the deal could also open the door to contracts in Latin America and Asia.

ABB will contribute its generator and steam turbine technology which stems chiefly from the original Brown Boveri side of the new group. The joint ventures are due to start up later this year.

Swedish analysts described the deal as a shrewd move by ABB, which is keeping its higher value projects – such as large, high-voltage systems – out of the joint ventures while using Westinghouse to build up a manufacturing base in the US.

"The Westinghouse name is very important for us," Mr Percy Barnevik, ABB chief executive said. "This deal gives us flexibility and strength against the Japanese in many markets," he added, pointing to the advantage of producing locally in a dollar area.

One of the ventures covers the manufacture, sale, service and maintenance of steam turbines and generators for utilities in North America while the other involves equipment for transmission and distribution.

ABB will have 45 per cent of each venture and has the option of buying out Westinghouse in the transmission and distribution project after two years. The Swedish-Swiss company expects to export some of the high-tech components from its plants in Europe, though most of the production will take place in the US.

Together, the Westinghouse and ABB partnership will have annual sales of $700m on the power generation side and $1.4bn on the transmission and distribution side.

The transmission and distribution joint venture involves items such as power and distribution transformers, relays, capacitors, high-voltage switch-gear and measurement and control products.

North America accounted for only 9 per cent of ABB's combined sales last year.

The outlook for the US power systems business has been considered bleak for several years. Domestic turbine and generator sales peaked in 1970 and have been declining ever since. However, Mr Barnevik said he believed there was plenty of room for growth in the US market as many older power plants would require revamping and reservicing.

Westinghouse has been spinning off and closing marginal or insufficiently profitable operations since the late 1970s, when it began to undo a decade-long programme of diversification.

The restructuring has become increasingly aggressive in the past few years, as the company has concentrated on boosting returns to its shareholders.

The areas on which Westinghouse plans to focus include defence electronics, broadcasting, financial services and a miscellaneous collection of profitable businesses including watchmaking and soft drink bottling.

CONTENTS

EUROPEAN NEWS

West German steelmakers in EC subsidies complaint

BY DAVID GOODHART IN BONN

THE West German Iron and Steel Federation has complained to the European Commission over what it believes to be illegal state subsidies to the British and Italian steel industries. If the Federation is not satisfied with the Commission's response it will consider taking the issue to the European Court.

If successful, the complaint could affect the privatisation of the British Steel Corporation, as the Germans want BSC to repay to the British Government "excessive" past subsidies. It may also complicate the imminent plans to phase out the remaining EC steel quotas which still cover about 50 per cent of EC production.

The West German steel industry, which unlike most of the rest of Europe is dominated by private companies, has long considered itself the most efficient in Europe. It has shed more hot rolled coil tonnage than any other member state since 1980.

Yet despite the theoretical benefits to West Germany from a freer market, the industry has argued that it is wrong to dismantle quotas while its competitors are still benefiting from state subsidies – most of which were outlawed by the EC in 1985.

In the case of BSC, the Federation is arguing that the British Government over-subsidised the corporation by £3.3bn between 1975 and 1985 in order completely to eliminate its debts and thus make it more attractive to potential shareholders. Although some subsidies for restructuring have been allowed, the Germans argue that subsidies to ease privatisation provide an unlawful boost to BSC competitiveness.

Dr Ruprecht Vondran, head of the Federation, said: "If West German companies enjoyed zero debt we would earn DM500m more each year and our earnings since 1984 would have doubled."

The case against the Italian state-owned steel company, Finsider, is more straightforward. The West Germans say that a large part of the aid still being pumped into the company contravenes the new aid regulations. Finsider has proposed a plan for a major restructuring which is being scrutinised by the Commission.

The Federation also makes the more general complaint that state banks have been providing subsidised credit for steel companies in several member states.

Although the West German steel producers have not always had their way in complaints to the Commission, the Federation did win its last battle over the transparency of quotas in 1986. Mr Vondran said yesterday that it had not yet been finally decided whether a reference to the European court would go ahead in the event of the Commission not providing satisfaction. However, even if a legal complaint is made, it could take up to four years to be resolved.

Portugal's business sector faces up to the spectre of a free-trade Europe

Diana Smith in Lisbon reports on how the approach of 1992 is galvanising some home-grown companies to respond to the challenge from a European Community hungry for new markets and cheap local labour costs

FIRST CAME the 1975 revolution that hauled the assets of many old family businesses into the nets of the State.

Then came their fight for a better deal than the 28-year compensation bonds at 2.5 per cent interest granted them, worth, according to Portugal's Confederation of Industry, barely a tenth of the true value of seized assets.

Now there is a subtler, permanent challenge to family businesses injured but not destroyed by the upheaval of 1975.

EC membership implies access not only by the Portuguese to markets and funds such as $2.9bn to modernise industry in the next four years – but also to Portuguese companies by enterprises shopping for other ventures.

Family businesses must ponder whether to let in or fend off go-getters mustering forces in readiness for 1992's single market – when woe betide a business in Portugal that has not hardened its muscle.

A harbinger is Caima, founded in Portugal 100 years ago, pioneer of sulphite-cooked eucalyptus pulp.

The smallest of Portugal's pulp groups and majority owned by Britain's Ibstock Johnson, Caima in 1986 made another pioneering gesture. It put 25 per cent of its shares onto Portugal's slowly-stirring stock market.

It was the first private company since pre-revolutionary days to make a public offer of shares.

Having profitably diversified its capital Caima went on making money from pulp in a growing European market – 1987 sales rose 31 per cent to Es8.4bn ($61m) with 90 per cent exported. 1987 net profit of Es2.4bn, was 120 per cent higher than 1986 thanks to strong trading performance and revenue from financial activities.

In 1987, after 100 years of tree products, building up capital and reserves to today's $97m and total assets to $108m, the company felt like branching out.

The first company it wooed was the august Vista Alegre, pride of the Pinto Basto clan and part-owned by one of the family holdings, Pinto Basto Comercial.

Vista Alegre, established 1824, makers of fine porcelain, including valued collectors' pieces displayed at New York's Metropolitan Museum in 1984, is a a family jewel in Portugal's manufacturing crown.

Carefully-managed by family members, Vista Alegre is modernising production and expanding exports – notably to the US where after years of soft-sell it has a new distributor, the experienced Fifth Avenue-based Zeke company that has put Vista Alegre household china into more US department stores than ever before.

It was not, however, ready for merger. Vista Alegre spurned Caima's proposal . . . and a small storm erupted in nationalistic circles because an outsider, even one involved in Portugal for 100 years, dared to approach such a closely-chaperoned treasure.

Caima backed off. It turned to companies connected with Vista Alegre.

In late January, it discreetly acquired Pinto Basto Comercial from members of the clan who accepted Portugal's first share swap giving them $15m of Caima shares for their Pinto Basto Comercial shares.

Caima became the proud new owner not only of old Pinto Basto Comercial but also of the 15 per cent of Vista Alegre controlled by the holding.

Acquiring the holding company has also led the Caima group into services – the shipping, forwarding and container terminal activities in which the Pinto Basto's specialised. It delights Caima to test itself in an area where its experience is as customer rather than manager.

Caima also proposed to another export-oriented concern, Crisal, makers of Atlantis Crystal, a dynamic Alcobaca-based company whose lively founder, Mr Antonio Magalhaes is thinking of retiring and wondering about the future of his family company.

Crisal is a bridge between the old, closed-capital family firm and more open enterprises: it put part of its shares on the stock market in 1987. But the Magalhaes family still holds the majority and is not keen to join forces with a non-relative like Caima.

Such reservations are inevitable in a land once run by owners rather than managers, unfamiliar with joint ventures, or mergers.

Portuguese business is having to accustom itself to acquisitions. Foreign newcomers have, since early 1986 snapped up Portuguese companies.

Spaniards, eager to acquire whatever is going, have purchased agri-business, timber, textiles and glass-making factories.

German footwear and textile companies acquire whatever they can lay their hands on, availing themselves of lower Portuguese labour costs to manufacture here and export home.

Belgian and Dutch companies are shopping around; British builders and holiday operators are making ever-deeper inroads into the Algarve.

Creative entrepreneurial tension is building, along with nationalistic feelings, as the open Europe promised in 1992 nears. It also made business in Portugal livelier than ever before.

W Germans seek plant Ford planned for Dundee

FORD-WERKE, Ford's West German subsidiary, has asked its US parent to consider building an electronics plant in West Germany after the failure of plans to locate the plant in Scotland, Reuter reports from Cologne.

Ford dropped its plans for a $55m plant in Dundee, Scotland, because of trade union opposition to a single union deal.

Ford-Werke chairman Mr Daniel Goeudevert said Austria and Spain were also candidates for the plant, which would create 1,000 jobs.

Ford-Werke would not give further details of the talks with Ford headquarters in Detroit. But it noted that the state government of North Rhine-Westphalia offered favourable conditions to companies to set up there.

North Rhine-Westphalia has one of the highest employment rates in West Germany as hundreds of thousands of jobs have been lost in recent years through coal pit and steel mill closures in the industrial Ruhr valley.

The administration in West Berlin was adopting similar measures to boost industry there, Ford-Werke added.

Mr Goeudevert said Ford was likely to shift the development of its small models to Asia in the long-term though Spain could survive as a production site in this field.

But the successor to the Fiesta, now built in Cologne, would be built in West Germany and employment levels here would stay stable, he added.

Development of larger models like the Lincoln and Mercury would be done mainly in the United States. Europe would remain the main development site for the mid-range Escort and Sierra.

WEU plans talks on Iberian states' entry

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

SPAIN and Portugal are expected to be invited to open talks on their request for membership of the seven-nation Western European Union at a meeting of WEU Foreign and Defence Ministers in The Hague next week.

If successful, the talks would lead to the first enlargement of the European defence grouping since 1954, when West Germany and Italy joined the original five members – Britain, France, the Netherlands, Belgium and Luxembourg.

The expansion of the WEU to include the Iberian countries would be in line with the objective of the long-dormant organisation to turn itself into an effective European pillar of Nato. It is also seen as a means of furthering the whole process of European integration.

A joint defence policy "platform" adopted by the member states in The Hague last October specifically underlined this double objective. "We are convinced that the construction of an integrated Europe will remain incomplete as long as it does not include security and defence," the document stated. It went on to stress that a more united Europe would enhance the European role in the western Alliance and ensure the basis for a balanced partnership between the two sides of the Atlantic.

However, it is not a foregone conclusion that Spain, in particular, will be able to fulfil all the conditions of membership, because of its ambiguous attitude towards Nato. The fact that, while a member of Nato, Spain does not want to be part of its integrated military command, should not prove to be an insuperable obstacle, since France is in the same position.

However, Spain and Portugal would also have to adhere to the new defence platform adopted by WEU, and here some difficulties can be foreseen in the case of Madrid, at least. Spain refuses to allow nuclear weapons to be stationed on its soil, yet the platform clearly states that nuclear arms are an essential element in western European defence.

"To be credible and effective, the strategy of deterrence and defence must continue to be based on an adequate mix of appropriate nuclear and conventional forces, only the nuclear element of which can confront a potential aggressor with an unacceptable risk," the document says.

The talks between the WEU and Spain and Portugal are expected to be essentially exploratory in the first instance. It is estimated that it would take about two years for the two countries to complete membership negotiations.

EC plans new rules for banks

By David Buchan in Brussels

A PROPOSAL that all European banks and credit institutions should maintain a minimum "solvency" ratio between their capital and assets is expected to be approved by the EC Commission today.

The draft directive forms part of the Commission's plan to remove obstacles to cross-border banking in the European Community. The proposed requirement that banks limit their lending and financial exposure to no more than a certain fixed multiple of their own capital funds is, in fact, a precondition for the "single licence" banking proposed by the Commission earlier this year.

Commission officials claim their plan is in line with work being carried out on bank prudential regulations in Basle with non-EC countries such as the US, Japan and Switzerland. The Commission's draft directive would, if approved by EC member states, come into force at the start of 1990 and within three years of that date require all EC credit institutions to observe a minimum solvency ratio.

Provisionally, the Commission proposes the ratio should be set at 8 per cent, a figure selected after study of statistics collected by national officials who make up the EC Banking Advisory Committee. But a fresh statistical study, to be conducted in the first half of this year, may lead the Commission to propose a different percentage ratio in the course of negotiations in the EC Council of Ministers.

The twin aims of the draft directive are to harmonise prudential supervision necessary to complete a single EC banking system and to strengthen average solvency standards among Community banks.

The novelty for many EC regulatory authorities is that the solvency ratio would measure a bank's "own funds", defined in an earlier Commission draft directive to include not only shareholder funds and retained profits but also such items as revaluation and general loan loss reserves, as a proportion of the "risk-adjusted" value of assets and off-balance sheet business. This risk-weighting, already practised for instance by the Bank of England, will be new to some EC regulators whose existing simpler solvency ratios make no distinction between different types of loans or assets.

Apart from the short-term interbank market, in which all borrowings by either EC or non-EC institutions would be given the same weighting, "domestic" (meaning EC) borrowers would receive a lower "risk-weighting" than their "foreign (non-EC) counterparts.

The Commission's proposal would also allow for the rapidly-growing off-balance sheet business of banks.

Warning as Norwegian inflation rises sharply

AN UNEXPECTED rise in Norway's consumer price index in March by 1.4 per cent after a 0.7 per cent rise in February has prompted warnings from economists that the Government must do more to tighten fiscal policy. Prices have risen by more than 7 per cent over the last 12 months, writes Karen Fossli in Oslo.

Mr Stein Reegaard, Consumer Affairs and Government Administration secretary, said the figures were disappointing, and would make it difficult for Norway to achieve its goal of keeping inflation to 5 per cent.

The increase is mostly because of higher clothing prices and housing costs.

Norway's statutory wage controls limit pay rises to 5 per cent this year and assumed inflation of 5 per cent. Union leaders yesterday warned that new wage negotiations could be necessary later this year unless inflation is brought under control.

Mr Tormod Andreassen, chief economist with Christiania Bank, Norway's second largest bank, believes that when the Government presents the revised national budget in May it will be necessary for it to reduce spending further and to enforce a formal price freeze.

Norway's economy has become overheated through high government spending, a tight labour market, and a drop in oil earnings. In 1986 the state earned NKr46bn from oil. Last year earnings slipped to less than NKr24bn and this year they are not expected to achieve a level beyond NKr12bn to NKr5bn.

Large increase in French trade deficit

BY PAUL BETTS IN PARIS

FRANCE'S trade balance deteriorated sharply last month with a seasonally adjusted deficit of FFr5.2bn in February, compared with a deficit of FFr600m the previous month and a deficit of FFr400m in February 1987.

The large February deficit is a blow for the French conservative government of Mr Jacques Chirac barely 12 days before the first round of the French presidential election. The disappointing February trade figures depressed the Paris bourse.

The poor February foreign trade performance was largely the result of a heavy industrial goods deficit of FFr6.5bn compared with a deficit of FFr1.4bn in this sector in January. This deterioration in the industrial balance reflects a decline in industrial exports coupled with an increase in French capital goods imports. However, imports of consumer goods also advanced by 5.5 per cent in February compared with the previous month.

The government sought to play down the extent of the latest monthly deficit by claiming that the February figures were still in line with general expectations of a trade deficit of just over FFr30bn this year, roughly similar to last year's trade deficit of FFr31.4bn. The French finance ministry also suggested that the monthly variations in the trade figures were not very significant, noting that the deficit during the last three months was FFr1.8bn compared with a deficit of FFr2.7bn for the previous quarter.

Football strike enrages fans

By Alan Friedman in Milan

ITALY'S football-crazy public was up in arms yesterday at the calling of an unprecedented players' strike that will force the cancellation of all major league matches this Sunday.

The players are planning to do the unthinkable and sit out the games because of mounting fears about the increasing number of foreign players being hired. The players' association called the strike after the Italian Football Federation rejected demands that foreign players not be hired for Italy's second division league, starting in 1990.

The prospect of losing this Sunday's matches was yesterday producing an emotional outcry from fans. Even worse, the strike will cost the weekly national football lottery an estimated $30m in lost revenue.

Italian players may be outraged by the "invasion" from abroad, but the fans have made heroes of highly-paid stars such as Diego Maradona of Argentina, Ian Rush of Wales and Rudy Voeller of West Germany. Although there are only 31 foreign players in major league football, the hiring of foreigners for second division teams is expected to treble the number of foreigners.

Euro Parliament set to back EC budget

BY WILLIAM DAWKINS IN STRASBOURG

THE European Parliament was yesterday set to endorse this year's European Community budget, delayed for five months by the wider wrangle over the reform of Community finances.

The parliament's first full debate on the Ecu 43.4bn (£28.64bn) spending plans for this year showed rare consensus around the budget figure settled on by member states, usually criticised by the Strasbourg assembly for being too low. The Parliament is likely to vote later this week for a budget only fractionally larger at Ecu 43.7bn, clearing the way for possible final adoption in May.

It wants more spending on extra Commission staff to tackle the extra workload in churning out new laws for the creation of a single internal market by 1992, and more on food aid for developing countries, transport research, and high technology.

The assembly's extra demands should pose no major obstacle, said Mr Hans Tietmeyer, the West German finance secretary handling member states' budget debate. "The parliament has embarked on a course of positive co-operation . . . and I am very happy about that," he told MEPs.

After Thursday's parliamentary vote, the budget will go back to member states, who will probably agree to most of the changes, before returning to the assembly for final clearance next month.

While there is little dispute over the figures, the budget's chances of a smooth passage could still be threatened by a dispute over how much influence on spending decisions the Parliament should be allowed in future years. The Council of Ministers, member states' decision making body, wants statutory annual limits for spending increases, an idea which the assembly opposes as an erosion of one of its few real powers.

Meanwhile, Mr Henning Christophersen, the European Budget Commissioner, yesterday issued an impassioned plea for an extra Ecu 13m to hire 636 extra staff to cope with the Commission's burgeoning workload, a request which EC governments want to scale back sharply. He said: "Our credibility will be in jeopardy in the eyes of the parliament and of the general public if we are forced to come up with half baked pieces of legislation because of the inadequate number of staff available to us."

Bonn supports release of EC funds to Turkey

TURKEY'S recent moves towards democracy justify the release of European Community development credit funds which have been blocked since the military coup in 1980, West German Secretary of State Irmgard Adam-Schwaetzer said yesterday, Reuter reports from Strasbourg.

The so-called fourth financial protocol, which would give Turkey a total Ecu 600m ($738m) in EC development aid over five years, has been blocked for eight years because of the political situation there.

However, Ms Adam-Schwaetzer, whose country currently holds the EC presidency, told a news conference at the European Parliament that West Germany believed recent moves towards democracy in Turkey now justified the release of the funds.

The financial protocol is expected to be discussed at a meeting between the EC and Turkey later this month.

However, EC member Greece, at odds with Turkey over other issues including the Turkish occupation of northern Cyprus, has traditionally opposed any moves to improve ties between the EC and Turkey.

Poland-Israel ties improve as ghetto milestone nears

THOUSANDS of people from around the world have begun arriving in Poland to mark the 45th anniversary of the Warsaw Jewish Ghetto Uprising, in which the ghetto's starving, poorly armed inhabitants held off the final Nazi extermination drive for nearly a month in 1943, AP reports from Warsaw.

The guests for the weeklong observance, organised jointly by Polish and Israeli committees, include two Israeli Government ministers, six members of the Israeli parliament and the largest group ever to visit Poland from Israel – about 2,000 people.

Poland severed diplomatic ties with Israel after the outbreak of the Six Day War in 1967. Low-level diplomatic ties resumed between the two countries in 1986, with diplomatic section offices in each others' capitals.

Mr Jerzy Urban, the Government spokesman, yesterday said that Poland would observe the uprising anniversary as an event marking "tragic European and Polish events [which] refer to our past, predating the creation of the state of Israel and the Middle East conflict."

But he said Poland remains "in full solidarity with the Palestinians fighting for their human and national rights."

He called "brutal behaviour" by Israel in its occupied territories "an offence to the memory of the defenders of the Warsaw Ghetto . . . contradictory to the ideals" for which they fought.

Deputy Prime Minister Itzhak Navon, a Labour Party member who serves as minister of education and culture in Israel's coalition Government, and Mr Abram Sharir, a Likud member who is minister of justice and tourism, were expected to arrive early next week to "strengthen relations," said an Israeli diplomat.

Poland expects about 4,500 foreign guests for the anniversary. In addition to the Israeli group, large delegations were expected from the United States, Canada, Australia and Western Europe.

Nazis marched into the ghetto early in the morning of on April 19 1943, expecting quickly to organise the deportation and eradication of the ghetto's last 70,000 inhabitants.

Instead they were met with fierce gunfire from the young fighters of the ghetto's Jewish Defense Organisation, launching an uprising that was to continue until mid-May, when the Nazis claimed victory and began razing the ghetto and deporting the survivors to death camps.

A handful of the Jewish fighters were able to escape through Warsaw's sewers to join the general Warsaw uprising the following year.

Polish industry establishes bank co-operative

TWENTY state-owned factories and co-operatives have founded the first Polish bank to operate outside the centralised state financing system, the president of the new bank said yesterday, Reuter reports from Warsaw.

Mr Janusz Lucki said the new Development Bank was officially registered on Monday in the industrial city of Lodz, west of Warsaw, but had yet to get final Government approval.

"I hope we will get the go-ahead soon and start our operation by September," he said.

The bank's capital is 360m zlotys ($900,000) but Mr Lucki expected this to increase as more enterprises joined in.

Ownership of shares is restricted to state-run enterprises and private producers' co-operatives. Individuals may not join.

The bank will grant mainly short-term credit to state and private enterprises and interest rates will range from 18 to 30 per cent in accordance with National Bank (NBP) regulations.

On Monday the Government announced the forthcoming creation of nine independent regional banks from regional branches of the NBP.

The independent banks are being establish in a programme launched last autumn to revitalise Poland's stagnant economy.

Bulgaria blames farm managers for food crisis

By Judy Dempsey in Vienna

BULGARIA'S farm managers are as much to blame as the weather for food shortages, Rabotnichesko Delo, the party newspaper said yesterday.

It said consumers found it almost impossible to buy fresh fruit, vegetable and dairy products in Sofia and other large towns. Potatoes, now considered a luxury in a primarily agricultural country, are imported from Poland.

Party officials and managers of agricultural combines, "have been warned that in future their negligence in fulfilling their obligations to supply the population with essential food products will not be tolerated," the paper said.

Slovenes seek to oust Belgrade government

THE Parliament of Slovenia, Yugoslavia's most developed republic, has begun a procedure that could ultimately force the federal government out of office – the first such move in Yugoslavia, the Dnevnik daily reported yesterday, AP reports from Ljubljana.

The initiative for the Belgrade government to be recalled has been put by several Slovenian deputies. According to the Slovenian constitution, the republic's government and the presidency will have to take a stand on the issue and inform the parliament.

If the bid is accepted, the Slovenian parliament would have to put the issue to a vote at the federal parliament in Belgrade.

The federal government is facing severe criticism of its economic policies.

Michael Donne outlines the main recommendations for reshaping Europe's airliner manufacturer

Wise men urge new flight plan for Airbus Industrie

THE four ministers in charge of Airbus Industrie, the European airliner manufacturing group, had before them at *their meeting in Madrid yesterday* a report that recommended sweeping changes in the structure and conduct of the group.

The principal recommendation was that Airbus Industrie, currently set up as a French-style *Groupement d'Intérêt Economique*, should be changed into a corporation by 1992, but that in the meantime the management structure should be simplified.

Other major recommendations include:

- Creating a post of financial director for Airbus, to ensure the complete financial transparency of the group's operations.
- Key posts in the group being offered to individuals of whatever nationality best suited to the job, rather than limited to those working for the four partner companies.
- *The possible creation of a European* aviation credit agency, responsible for financing aircraft sales along the lines of the American Export-Import Bank.

The report was compiled by the team of "Four Wise Men" set up by ministers earlier this year to study how Airbus Industrie's structure could be brought up to date to meet intensifying competition in world markets, to trim costs, and to meet mounting US criticisms of unfair trading by Airbus.

The four are Sir Jeffery Sterling, of Britain, Dr P Pfeiffer of West Germany, Mr D Gonzales of Spain and Mr Jacques Benichou of France.

The report says the growth of Airbus from its start in 1969-70 to an organisation today with orders and options for over 1,000 aircraft, of which more than 400 have been delivered, *representing* about 15 to 20 per cent of the world market, has not been accompanied by reorganisation *to meet the need for* increasing efficiency.

This is now regarded as urgent, taking into account the competition facing Airbus from US manufacturers, and the effects of the declining dollar.

The report identifies three problems.

- A lack of correlation between marketing and financing. It is pointed out that the four main partners negotiate prices for their contributions among themselves and with Airbus, but do not notify the real costs to the other Airbus partners, "nor does Airbus know what they are".

This results in the prices invoiced to Airbus being very different from actual production costs.

- The lack of financial information about Airbus programmes to enable objective decision-taking on adequate criteria
- The complexity of the organisation, with too many committees taking decisions.

The report suggests that what is needed is an organisation with greater power, more concerned with obtaining benefits, and less conditioned by the interests of the company-members of the consortium.

The main recommendations, in addition to the conversion of Airbus into a corporation and modifications to the management structure, include forming a committee of directors as the top decision-taker, involving the president of Airbus and the presidents of the four partner companies.

The report suggests that the industrial partners must accept, without reservations, the decisions taken at the top-level committee meetings.

The creation of the post of financial director is seen as vital, as is the changing of the whole operation to achieve a management style as close as possible *to that of a normal corporation.*

It also suggests that the key posts in Airbus should no longer be reserved for people *from the four* partner countries, but assigned to those best suited for the jobs, and that Airbus should provide career incentives for suitably qualified individuals. At present, most of its senior executives are directly seconded from the partner companies.

On the financial aspects of Airbus, the report suggests that the profits or losses of the various programmes should be shared according to the amount of work the partner companies do, and not according to their specific financial shareholdings, as at present.

It also recommends that Airbus itself should accept the responsibility for overseeing purchases of equipment (such as engines) by third parties (the airline customers) instead of the airlines negotiating directly with the equipment makers as at present.

Also, the report believes that the creation of an American-style aircraft credit sales organisation, along the lines of the US Export-Import Bank of Washington, *could do much to improve* the transparency of sales financing.

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OVERSEAS NEWS

Odds stacked against success of storming hijacked aircraft

BY ANDREW MARSHALL

STORMING the aircraft is always the last option considered in a hijacking, but if hijackers begin randomly killing the hostages, it is the only option.

The odds are stacked against success: the risks for the passengers and the assault unit are huge.

The timing of any attack on the Kuwait Airways 747 at Larnaca airport would be dictated by the judgment of the negotiators and military forces on the ground, made on the basis of intelligence probably gathered through electronic surveillance of the aircraft. But the political decision, as to whether an assault is on the agenda, has probably already been taken by the Cypriots and Kuwaitis.

The Iranians claim to have offered to storm the aircraft while it was on Iranian soil, according to Dr Javad Larijani, the Iranian Foreign Minister, speaking yesterday in London. The offer was, apparently, turned down by Kuwait.

Iranian security forces stormed a Kuwaiti airliner held at Tehran in December 1984, ostensibly taking the hijackers by surprise, though later suspicions were aired that there was collusion between the Iranians and the hijackers.

Though the first officially recorded act of air piracy was in 1931, "storming" aircraft to release hostages is a more recent development. It was a consequence of the arrival on the scene in the 1970s of dedicated, politically-motivated terrorists prepared both to kill and die for their causes.

Most countries possess specialised military or police units armed and trained for counter-terrorism. The British have the Special Air Service, the Germans have GSG/9, the French, GIGN and the Americans, the SFOD-Delta force.

The Israelis are probably the leaders in the field. In one of the first attempts to storm an airliner, in 1972, Israeli commandos, dressed as cleaners, hit a Sabena airliner which had been hijacked and forced to land at Ben Gurion airport.

Probably the best known storming, now immortalised in print and celluloid, is the Israeli raid on Entebbe of July 1976. Israeli commandos flew 2,500 miles to storm an Air France Airbus, also tackling some 80 Ugandan soldiers in a 40-minute gunbattle at the airport. Two Israeli hostages died in the battle, and a third later.

It would be out of the question for the Israelis to participate in any operation on Cyprus. But their expertise is probably matched by that of Britain's SAS, and there are believed to be SAS units on the island. They might act on their own, or in assistance of either Cypriot or Kuwaiti forces. So far, however, it is understood that no official request for support has been made to Britain, France, West Germany or the US.

Though they have never carried out such an exercise on their own, the SAS have considerable experience of hostage situations, most notably the siege of the Iranian embassy in May 1980. They are also known to have assisted in at least two previous operations against aircraft.

In 1977, 60 West German commandos of GSG/9 with support from the SAS rescued 86 hostages from a Lufthansa Boeing 737 which had been hijacked to Mogadishu by an organisation believed to be linked to the Red Army Faction. The attack lasted only two minutes and the hijackers were killed without casualties among hostages or raiding troops.

The SAS also provided assistance in March 1981 when Indonesian troops stormed a Garuda airliner at Bangkok airport, freeing 44 passengers and killing the five hijackers. Members of the SAS were also on standby during the hijack of a TWA jet from Athens to Beirut in June 1985.

The SAS was set up for special operations during the Second World War and revived during the Emergency in Malaya in the 1950s. It serves as the model for, and the instructor of, many of the world's specialised counter-terrorist groups. The American counterpart, SFOD-Delta, was set up in 1977 by Colonel Charlie Beckwith, who had served with the SAS as an exchange officer in the 1960s.

The vital element in any such operation is timing. To minimise casualties, the assault must be unexpected, quick and at a psychologically well-chosen moment. The exercise is extensively rehearsed beforehand, and intelligence on how many hijackers there are, their disposition on the plane, and their armaments, is acquired, either from electronic surveillance of the plane or first-hand evidence from released hostages. Remote controlled cameras and microphones can also be pre-planted on aircraft.

The worst incidents have occurred when the timing has been misjudged. In September 1986, Pakistani commandos stormed a Pan American airliner at Karachi airport, but they had left it too late. Gunmen had already opened fire on the hostages by the time they arrived at the plane, and 20 hostages were killed and 100 injured.

Probably the bloodiest catastrophe was in 1985, when Egyptian commandoes stormed an Egyptair Boeing 737 in Malta. The hijackers realised what was going on and fired on hostages. The attack ended with 59 passengers dead.

Communication between those dealing with the hijack is also important. Typically, military, political and civil units of several nationalities are involved, as at Larnaca.

Egyptian commandos were also involved in a badly bungled storming in February 1978 at Larnaca airport. They stormed a Cyprus Airways DC-8 after hijackers shot a hostage, an Egyptian newspaper editor. The hijackers surrendered, but subsequently Cypriot troops fired at the Egyptian troops, killing at least 15 of them.

The majority of hijacks end peacefully, through negotiation. The strategy is to keep the hijackers talking, win back the initiative from them, and if possible to gain their trust. The most effective resource is time – to wear the hijackers down mentally, erode their demands and to exhaust them physically. The negotiators try to set up communication links, to supply the hijackers with food, and to meet all their requests – short of the main demand.

The negotiator also needs to be in possession of as much information as possible about events within the aircraft. This "psychological ammunition" gives an edge which can be exploited in negotiation, and if necessary, it enables the counter-terrorist unit to judge the right psychological moment to strike.

Behind the negotiations, the decision to storm an aircraft, with its attendant risk, is always a political trade-off, which in this case will have to be made by the Kuwaitis, in co-operation with the Cypriots. Is the safety of hostages paramount, or do concessions merely encourage future use of blackmail?

Professor Paul Wilkinson, Chairman of the Research Foundation for the Study of Terrorism, takes a hard line view which is probably shared by the Kuwaitis, who recognise their vulnerability: "It's absolutely vital never to give in," he says. "Kuwait's stoicism (so far) is admirable: they are acting to safeguard not just their own interest, but those of the whole aviation community." Of a storming, he says: "It may be unavoidable."

The cult aboard the 'Plane of the Great Martyrs'

BY ANDREW GOWERS AND NORA BOUSTANY

AS THE hijackers of the Kuwaiti Boeing 747 at Larnaca yesterday donned death shrouds and renamed the aircraft "the Plane of the Great Martyrs", they were drawing on a heritage of religious symbolism familiar to Shia Moslems from Lebanon to Afghanistan for centuries.

"We have decided to wear our shrouds under our clothes in order that our 17 brothers (the militants convicted of bombing offences in a Kuwaiti jail) will return or we shall join the ghosts in Heaven," the hijackers, believed to be Lebanese, Bahraini and possibly Kuwaiti Shias, said in a statement. "Death with glory is better than life in darkness."

Although by late last night the hijackers' threat to blow up the plane with all on board had not been carried out, there was no reason to doubt their sincerity. For they were using a language employed by hundreds of thousands of Shias who have martyred themselves in the manifold conflicts of the Middle East in recent years.

These include the Iranian volunteers who have perished on the marshy southern battlefront with Iraq; the truck bombers who killed 243 Americans along with themselves at the US marine barracks in Beirut in 1983; and the Moslem guerrillas who immolate themselves in almost daily battles with Israeli forces and their proxies in southern Lebanon.

Invoking death at a time of stress is the modern Shia way of challenging the world. Such rhetoric also makes terrorists like the ones who staged the hijacking of the past eight days especially difficult to cope with for negotiators or for governments contemplating more forceful action.

The twin cults of martyrdom and protest have, in fact, been deeply embedded in Shia religious tradition ever since the Seventh Century, *when the great* schism within Islam over the succession to Mohammed began. The split was between followers of Mohammed's son in law, Ali Ibn Ali Talib, and supporters of Abu Bakr, whom Mohammed's companions had chosen as deputy or caliph: the former became Shias – literally, "partisans" of Ali, now accounting for some 11 per cent of the world's 750m Moslems – and the latter, Sunnis, those who follow the "sunna" or tradition of the Prophet.

The event which cemented the division was the martyrdom in battle in 680 of Ali's second son, Hussein. His death is commemorated to this day in the annual festival of Muharram, when Shias flagellate themselves in public parades, stage re-enactments of the battle of Kerbala and curse the early Sunni caliphs.

Shi'ism was thus born as a religion of protest against those in power. In the words of Bernard Lewis, a leading authority on Islam: "In their own perception, the Shia were the opposition in Islam, the defenders of the oppressed, the critics and opponents of privilege."

But it is only in the last few years that Shias, principally those of the so-called "Twelver" sect, who believe in the mysterious disappearance of the 12th in a line of imams, or religious leaders, in the ninth century, have emerged from centuries of relative political quietism to challenge the existing, largely Sunni-dominated, order in the Middle East.

The catalyst for this was, of course, Iran's 1979 Islamic revolution. Iran is the biggest Shia country, with a population approaching 50m, an estimated 95 per cent of it Shia. The revolution, and Ayatollah Ruhollah Khomeini's attempts to export it by war and other means, sent shock waves through the rest of the Islamic world, and led to growing political protests by Shias in Gulf countries and elsewhere. Indeed, exporting the revolution has been one of the main ways in which Iran has sought to maintain its own revolutionary momentum, and to exercise leverage over the West.

Inspired by Tehran, many young Lebanese Shias have taken to the cult of martyrdom with gusto. Their radical groups, gathered under the umbrella of Hizbollah (the Party of God), have long been gaining political ground over the more mainstream Shia militia, Amal, though they did suffer a serious military setback in fighting with Amal in southern Lebanon last week. Iran has admitted that it exerts influence over Lebanese groups which hold Western hostages.

Like the Lebanese truck bombings and repeated acts of attempted subversion in Bahrain and Kuwait, the hijacking is an extreme manifestation of the trend. The reported involvement of Lebanese, Bahraini, and possibly Kuwaiti Shias underlines the multinational nature of the activist network.

However vigorously Iran may deny involvement in this particular incident, it cannot pretend that it did not have a major hand in letting the genie of Shia terrorism out of the bottle.

Akis Fantis, left, Cypriot spokesman, and Samir Abou Gazala, PLO mission chief, centre, with PLO negotiator Malath Abdo

Cyprus at the crossroads in relations with its neighbours

BY TONY WALKER IN LARNACA

CYPRUS has, because of the importance to it of the Middle East, attempted to maintain as good relations as possible with the major countries of the region, says Tony Rhodes, manager of the Middle East Market Research Bureau in Nicosia.

The company, which was founded by Mr George Vasiliou, the new Cypriot President, is one of a number of local concerns that have prospered from links with Arab states, principally Saudi Arabia and Kuwait.

In fact, it was Mr Vasiliou's company that conducted a great deal of pioneering market research in the booming Arab consumer markets of the Gulf before the collapse of oil prices forced a slowdown in spending.

Joannou and Paraskevaides (J and P), the big Cypriot construction company, has been one of the most successful contracting firms in the Gulf and elsewhere in the Middle East.

Like President Vasiliou, a number of Cypriots have become millionaires by taking advantage of the island's unique location in the Eastern Mediterranean on the fringes of the Arab world.

Among Arab states, Cyprus's relations with Kuwait have perhaps been closest. The Kuwait Development Fund (Kuwait's agency for soft loans) has helped fund infrastructure projects in Cyprus such as an impressive highway from Nicosia to Limassol. The fund has also provided loans for a big irrigation scheme.

Wealthy Kuwaitis own houses in Cyprus. An expensive housing development near Limassol is even referred to by locals as "little Kuwait".

It is not surprising that Cyprus has been exercising all its efforts to assist the Kuwaitis bring to an end a hijacking which turned into something of a national nightmare.

Cyprus's trade figures also reveal the importance of good relations with Arab states to the local economy. Between January and November, 1987 – the latest figures available – Cypriot total exports reached C£264m (£330m).

Of this more than one-third, or C£94m, was to Arab countries, compared with exports to the European Community of C£113m. Kuwait's biggest Arab market is Libya, followed by Lebanon (mostly re-exports) and Saudi Arabia. Kuwait is also an important destination for Cypriot products such as citrus, footwear and clothing.

Cypriot businessmen say that trade with Arab states has remained static recently because of the slowdown in activity in the Gulf and because products from the Far East have become more competitive.

A problem for the Cypriot exporters has been the strength of the local currency. Cyprus, however, continues to benefit as a business centre from its close proximity to Lebanon which, because of security worries, is closed to most Westerners. The booming re-export business to Lebanon is providing jobs and opportunities for many Cypriots *and keeping the island's ports* busy.

The busy Larnaca airport, which handles 3,500 passengers daily on average, most of them tourists, is a convenient transit point for flights to and from the Middle East. Many of the region's airlines fly to Cyprus.

Another factor most likely weighing in Cyprus's calculations as it been trying to bring the hijacking to a peaceful conclusion, is the importance of its political relationships with another Islamic republic in the north of the island.

Greek Cypriot hopes of a settlement of the Cyprus problem would be harmed if there were to happen, because it would add to pressures for a permanent division of the island. That no Arab state has recognised North Cyprus is in part attributable to active Greek Cypriot diplomacy.

Bangladesh state of emergency lifted

PRESIDENT Hossain Mohammad Ershad yesterday lifted the emergency he imposed on Bangladesh last November at the height of an opposition campaign to topple him, Reuter reports from Dhaka.

"The President has withdrawn the state of emergency," state-run television said in a terse announcement."

The opposition called the move cosmetic and vowed to continue its campaign of strikes and protests to force the 58 year old former army general to resign.

Information Minister Mahbubur Rahman said Bangladesh had returned to normal after violence-marred polls on March 3.

"The emergency has not stayed even a day longer than was necessary," he said.

Sheikh Hasina, leader of the opposition Awami League, said President Ershad ended the emergency to forestall possible criticism at a meeting of Bangladesh's Western aid donors in Paris tomorrow.

Planning Minister A.K. Khandaker *has already* left for France where he will ask for \$2.2bn in aid for the year beginning July for this impoverished country of 105m people.

"It would be ridiculous for him [Ershad] to ask for money [while] keeping his country under subjugation," Sheik Hasina said.

President Ershad clamped curbs on civil liberties and press freedom, and banned anti-government protests on November 27.

He imposed night curfews for several weeks in five key Bangladeshi cities, including the capital, Dhaka.

He has refused to step down and has survived 27 strikes since November which the Government says have cost \$50m in lost output.

Mr Mirza Golam Hafiz, vice-president of the opposition Bangladesh Nationalist Party, said the emergency had outlived its usefulness.

"The president imposed the emergency to hold a fake election. He has now lifted the emergency to make a fake parliament look real," he said.

Shortly before the lifting of the emergency the opposition called an eight-hour general strike for April 25 when President Ershad is expected to address the opening session of parliament.

"The strike would prove that it was a fake parliament and its so-called members represent only themselves," the opposition said.

Mr Ershad toppled a civilian government in a bloodless 1982 coup. The opposition accuses him of running a corrupt government with the backing of the military. It wants him to hand over power to a caretaker government that would hold fresh elections.

Clampdown in occupied territories

By Andrew Whitley in Jerusalem

ISRAELI security forces took extraordinary precautions yesterday to prevent an expected explosion of unrest in the occupied territories following the deportation on Monday of eight Palestinian activists.

On Monday evening, three villagers were killed in Kafr Ra'i, in the northern part of the West Bank, according to Palestinian sources. But a conspicuous display of force contained disturbances yesterday to lower than expected levels.

About 40 suspected ringleaders of the uprising were arrested overnight in the West Bank towns of Bethlehem, Hebron, Jenin and Nablus. They join the 900 already being held.

According to a senior relief agency official, troops raided the Sheikh Radwan housing project on the edge of Gaza City yesterday morning. About 10 boys were *said to have been seized*, stripped naked and beaten.

According to a report from Lebanon, the eight were handed over yesterday to the care of the International Committee for the Red Cross.

OBITUARY

Paton departs his beloved country

TRIBUTES from President P W Botha and a wide range of political, religious and literary figures marked the death from cancer yesterday of author and liberal patriarch Alan Paton at his home near Botha's Hill in the rolling foothills of Natal.

Mr Paton, 85, was South Africa's closest equivalent to those old testament prophets whose life and work kept alive an older, deeper system of values in the face of new intolerant ideologies, official hostility and much public indifference.

He was above all a decent man who fought for and remained true to liberal values all his life. A white English-speaking South African, he wrote fine books about *fellow South Africans*, black and white, living anguished lives in a beautiful country and might have written more had he not thrown so much energy into politics and commenting on current events.

Publication of his first and most famous novel Cry, The Beloved Country, in 1948 coincided with the electoral victory of the Afrikaner National Party which equated liberalism with communism and compassion with subversion.

Born in 1903, only two years after the end of the Boer War, it was typical of the man that he studied Afrikaans and enthusiastically supported the "Boer renaissance" of the 1930s.

His sympathy turned to deep concern when he recognised, during the *foundation* stone laying ceremony at the Pretoria Voortrekker Monument in 1938, the exclusivist, intolerant and domineering spirit of Afrikaner nationalism at that time.

He gained much of his insight into human nature, and the difficulty of changing it, during his 13 years as principal of the Diepkloof reformatory for African boys – now part of the huge military base on the edge of Soweto. He recounted the impact of this contact with delinquent black youths on the margin of this polarised society in the first part of his autobiography Towards The Mountain.

But it was in the fifties and sixties, when South Africa was ruled by Dr Hendrik Verwoerd and other fanatical Afrikaner racists that Paton stubbornly defended beleaguered liberal values. He was chairman and later president of the Liberal Party from 1954 up to its extinction in 1968 when the absurdly named Prohibition of Improper Interference Act banned racially mixed political parties. He had his passport confiscated in 1960 but it was restored in 1970 when he was allowed to visit Harvard University.

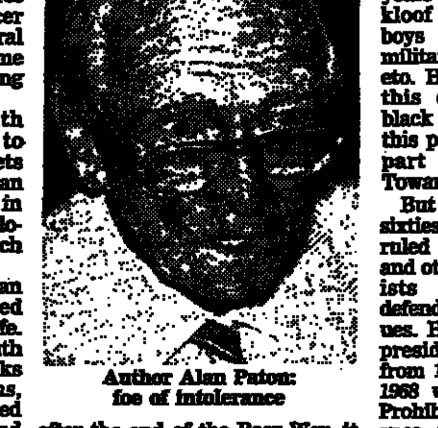
Despite his tribulations during Afrikanerdom's Stalinist phase Paton became one of the first non-Afrikaners to appreciate the depth and sincerity of the soul-searching within Afrikaner ranks as the seventies wore on. Although he fiercely criticised President Botha's "grotesque" three chamber parliament he recognised it as a clear sign of an attempt by Afrikaners to break away from whites-only rule although still far from the non-racial federal system he advocated towards the end of his life.

His willingness to recognise the National Party's desire to get off what he called "the tiger of white racism", his esteem for Zulu Chief Mangosuthu Buthelezi and support for the Kwa-Natal Indaba proposals for a non-racial regional government for the Natal province subsequently exposed him to a new intolerance, that of the South African and exiled left opposition.

Sadly for the man and South Africa Alan Paton's death came at a time when his vision of a democratic, multi-racial country ruled by just laws and liberal values seems further away than ever in the welter of assassinations, cross-border raids, bans on opposition groups and free expression.

A year ago,in an analysis of the whites-only elections, he looked into the glass darkly and found that "we know less about our future than at any time in our history."

Anthony Robinson



Author Alan Paton: foe of intolerance

New land laws 'vital to Aquino'

By Richard Gourlay in Manila

MR BILL Hayden, the Australian Foreign Minister, yesterday urged President Corazon Aquino of the Philippines to push ahead with land reform, which has become bogged down in Congressional bickering.

During a two-day visit to Manila, Mr Hayden told Mrs Aquino that the long promised redistribution of land was "vital" to the country.

He said, her support internationally was partly based on the belief that she would implement what her predecessor, Mr Ferdinand Marcos, failed to do.

Mrs Aquino's land-owning family *is among* those that would lose most by a properly implemented land reform programme.

The Senate and House have approved widely differing land reform programmes which many observers believe will be nearly impossible to reconcile. They differ on the critical questions of how much land an owner will be able to retain, compensation and which land should be reformed first.

Both versions have been greeted with cynicism by farmers groups and diplomats.

Mecca security reviewed

KING FAHD of Saudi Arabia has ordered a top level review of security for this year's pilgrimage to the Moslem holy city of Mecca, *Reuter* reports from Riyadh.

The review was announced just hours after Iran's spiritual leader Ayatollah Ruhollah Khomeini said on Monday that Tehran would send 150,000 pilgrims on the annual Haj to Saudi Arabia and warned Riyadh against stopping them demonstrating.

Saudi Arabia has already said it will not tolerate demonstrations this year and has announced quotas on pilgrims which would cut the number from Iran by two-thirds to 50,000.

More than 400 people, mostly Iranians, were killed in clashes in Mecca last July.

Critics seek wide inquiry into activities by ex-president's brother, writes Maggie Ford

Korean opposition presses corruption claims

ALLEGATIONS of misdeeds on the part of Mr Chun Kyung Hwan, brother of former South Korean president Chun Doo Hwan, are unlikely to abate as he awaits trial on charges of tax evasion, influence-buying, illegal diversion of government funds, tax evasion and bribery.

If the Opposition has its way, other members of the former ruling family, along with numerous government officials, may also be implicated.

Foreign companies could be caught in the net, too, for one of the activities Mr Chun is alleged to have engaged in is the establishment of investments abroad for the years after his brother retired from office.

The allegations centre on Mr Chun's activities while he was head of the Saemaul Undong (New Community) movement, a rural development project set up nearly 20 years ago. Mr Chun was appointed as its chief after his brother took power in a military *coup in 1979.*

According to many Koreans, he succeeded in turning what was a praiseworthy movement which helped farmers and improved rural living standards into a private kingdom, rife with corruption.

Prosecutors have alleged that Mr Chun demanded donations from top companies to the Saemaul movement, helped some businessmen by using his influence and punished others who refused to deliver the cash. Three senior businessmen are said to be in hiding after the prosecution announced it wished to interview them. Earlier this month, the former chairman of Kukje, one of South Korea's largest companies until it was disbanded in 1985, filed a suit in the Seoul District Court for the return of the company's assets.

The suit claimed that the group was made a scapegoat under the Chun regime because it had failed to pay the full donations to the Saemaul movement and had supported Opposition candidates in the 1985 general election. The companies which took over subsidiaries of the disbanded group received kickbacks from the government, the suit claims.

Irritation with the Kukje group is alleged to have been increased by its reported refusal to make a contribution to the founding of the Ilhae Institute, a think tank set up by former President Chun Doo Hwan.

The Institute has long attracted criticism for its activities. There was a crash on the stock exchange last year following Opposition allegations that it was *manipulating the market.*

Last week, Seoul prosecutors disclosed that Mr Chun had admitted that he asked Kukje to develop a gold mine in Argentina which was subsequently found to have been abandoned. Investigations are also continuing into allegations about *his business* dealings in Australia. Officials are looking into Mr Chun's alleged involvement in the construction of a 107-storey building in Brisbane, Queensland, apparently built by a joint venture between Australian and Singapore companies.

Mr Bill Hayden, the Australian Foreign Minister, said during a visit to Seoul last week that Canberra would investigate any involvement by the Chun family if asked by the Seoul Government. His pledge followed Opposition allegations that the Chuns had property and other investments in securities in Australia.

Mr Chun is also alleged to have property investments in New York and New Jersey. His brother returned from a visit to the US at the weekend where he had talks with President Reagan and other senior officials.

Mr Chun's alleged corruption is already affecting South Korea's trade relationships, notably over beef imports, where Seoul is in dispute with the US and Australia.

He is widely blamed for the import of thousands of beef cattle in *1983, which caused a major* price fall and plunged many farmers into debt. South Korea later banned beef imports to protect the farmers and is currently trying to stave off strong pressure to re-open the market. Australian exporters had at least 80 per cent of the market before it was closed.

While prosecution officials may wind up their investigations into the Chun case shortly, opposition politicians are stepping up efforts to find out more during the current election campaign for the National Assembly.

They are attempting to show that there is little difference between the Chun regime and the current Government of Mr Roh Tae Woo, pointing out that Mr Roh was Home Minister and technically in charge of the Saemaul movement five years ago.

They claim that the amount of money illegally obtained by Mr Chun is closer to \$1bn than the \$15m alleged by the prosecution. Meanwhile, the public continues to enjoy the spectacle.

Former South Korean president Chun Doo Hwan was *quoted by newspapers yesterday* as saying he would have settled the case before the end of his term had he known about his brother's alleged wrongdoings. On returning from the US, he said: "I'm very sorry for having imposed a burden on the new government of President Roh Tae-woo . . . at a time when the newly-inaugurated government, along with the people, should make a step toward a tomorrow full of hope."

Strikes force closure of car plant, shipyard

By Maggie Ford

STRIKES have forced the temporary closure of car plants and a shipyard at one of South Korea's leading companies, the Daewoo group.

Workers at three car plants producing the Le Mans export model have been taking industrial action since last month in pursuit of a pay rise of 26 per cent, according to a company spokesman.

Daewoo has lost production of 7,000 units worth 35bn won (£25m), but exports have not yet been affected.

The company has offered rises in pay and bonuses of 48,000 won a month, a rise of 19 per cent, but workers yesterday rejected the company's final offer and declared a strike. A pay rise of 19 per cent would bring the average wage to 562,000 won a month, including allowances and overtime for a 61-hour week.

Daewoo yesterday locked out workers at its shipyard at Okpo in the south east, where workers have been on strike since April 1.

AMERICAN NEWS

Dukakis and Gore clash on Middle East

GOVERNOR Michael Dukakis and Senator Albert Gore traded barbs on the Middle East and how to deal with the Rev Jesse Jackson, their rival Democratic contender in the nomination for President, in their first debate in New York yesterday, AP reports from New York.

The Democrats' debate, one week before the New York primary with 255 nominating delegates at stake, reflected the New York primary's focus on Middle East issues. The Jewish community in New York City is powerful, controlling about one quarter of the Democratic voter bloc.

Mr Gore cited *disagreements* with both Mr Jackson and Mr Dukakis on the issue of an independent state for Palestinians, saying Mr Dukakis had sounded a note of "enthusiasm" about such a prospect. He said he disagreed "with the way Jesse Jackson advocates a Palestinian state".

Mr Jackson, who has drawn opposition from some Jewish leaders, said mutual recognition and security were goals in the occupied territories of the Middle East.

"While we can guarantee secure borders, we cannot ensure tranquility so long as there is occupation," he said.

Mr Gore called the issue "politically charged", then said he had disagreements with Mr Jackson and Mr Dukakis.

But Mr Dukakis defended his position. "I didn't express enthusiasm for a Palestinian state yesterday. I expressed enthusiasm *for presidential leadership* to persuade Arab leaders to finally stand up and say they were prepared to commit themselves to saying Israel has a right to exist."

Mr Jackson, in a delicate position *because he made comments* in 1984 that offended many Jews, has continued to put distance between himself and Mr Yasser Arafat, the Palestine Liberation Organisation leader, with whom he once met.

Earlier this week Mr Jackson called the PLO leader one of the "most extreme elements" in the conflict and he urged Jewish and Arab-Americans to hold talks themselves in an effort to find common ground.

Mr Gore has been lagging behind Mr Dukakis and Mr Jackson in polls of New York voters as well as the national delegate count. The latest count by Associated Press puts Mr Dukakis at 745.05, Mr Jackson at 703.55, Mr Gore at 395.8 and uncommitted 514.35. To nominate, 2,082 delegates are needed.

World Bank unveils investment risk plan

BY ANTHONY HARRIS IN WASHINGTON

MR BARBER CONABLE, the World Bank president, announced yesterday that a long-discussed scheme to insure investors against such risks as expropriation would be launched this summer. This should remove one of the biggest barriers to direct investment in developing countries.

The Multilateral Investment Guarantee Agency (Miga) has now achieved the necessary quorum of voting and financial support with the decision of the US and Great Britain to subscribe to it. It required the votes of 5 industrialised and 15 developing countries, and the subscription of at least 53 per cent of its authorised capital. Both marks have now been passed: the US and Britain bring the voting support up to 9 industrialised and 20 developing countries, and the subscribed capital to $578m.

The legal convention establishing Miga, which was first drafted many years ago, now becomes effective. On June 8 the governing body of the World Bank group will set up the operating procedures.

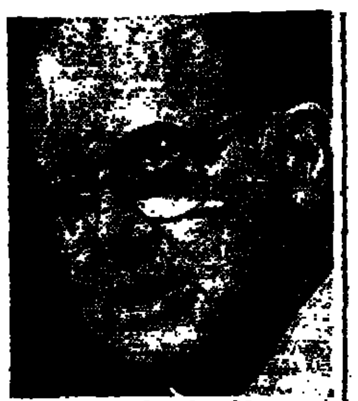
Miga is intended to provide investors, who will pay a premium for the service, with cover *against four main classes of risk*:

● "Non-commercial" risks arising from administrative actions by the host country, such as the imposition of exchange controls.

● Legislative actions by the host country.

● Repudiation of contracts, where there is no competent forum to provide a legal remedy, or where a legal judgment in favour of the investor cannot be enforced.

● Risks arising from armed conflict and civil war.



Barber Conable

Weighing up the sticks, carrots and acronyms

Philip Stephens in Washington says more IMF cash means more strings

AS FINANCE MINISTERS from industrial and developing nations gather this week at the International Monetary Fund to review progress on easing the debt crisis, the air is thick with acronyms.

CFM (Contingency Financing Mechanism), CFF (Compensatory Financing Facility) EFF (Extended Fund Facility) and ESAF (Extended Structural Adjustment Facility) are the initials on everyone's lips. By the end of this week the first two of these will be merged so senior *officials are already running* their tongues around CCFF (Compensatory and Contingency Financing Facility).

Buried amid the jargon are signs of progress in efforts to increase the amount of IMF *money available to heavily-in*debted nations and to inject more flexibility into the lending process. But in the words of one rather cynical delegate from a debtor nation: "Acronyms are no substitute for hard cash."

For the largest industrial nations – and above all for the US – the starting point for this week's discussions is that there is no substitute for the case-by-case approach to the debt crisis which has been the centrepiece of their policy since 1985. Suggestions that the Fund should adopt a more generalised approach by buying up discounted debt from commercial banks and passing on the savings to debtors are being firmly quashed.

In essence, only when individual nations demonstrate that they are prepared to "help themselves" will industrial nations agree that new money be made available from international organisations like the IMF to ease the pain of adjustment. It is the stick and carrot formula *par excellence*.

Within that tight framework, industrial nations do seem prepared to increase the rewards available to those debtors who play the game.

The ESAF, which will receive its final seal of approval at the weekly meeting of the Fund's policymaking Interim Committee, will make a further $8bn available to the world's very poorest debtors, particularly those in sub-Saharan Africa.

Meanwhile, the broadening of the Fund's Compensatory Financing Facility to embrace a new Contingency Financing Mechanism will increase the cash available to developing nations who find their adjustment programmes blown off course by external shocks.

The two facilities together will allow IMF members to borrow up to 105 per cent of their quotas with the Fund, if unforeseen shifts in import and export prices or sustained rises in world interest rates rises threaten adjustment programmes. At present the CFF allows borrowing up to 83 per cent of quota.

Mr Michel Camdessus, the IMF Managing Director, is working energetically to improve other aspects of the Fund's lending operations. In particular, he wants much greater use of the Extended Fund Facility, which provides cash for debtors over three years rather than the 12 or 18 months available under traditional standby arrangement.

That, he believes, would give additional depth to adjustment programmes, a trend which might be further enhanced by streamlining the Fund's performance criteria and monitoring procedures. Performance criteria for Fund programmes, for example, might be set on a six-monthly rather than a quarterly basis.

At present only two countries - Chile and Ghana - have loans under the EFF, but Mr Camdessus hopes that its use could be significantly expanded.

In parallel, the World Bank believes that its planned $74.8bn capital increase will give it the resources to accelerate the shift in its lending programmes towards support for structural adjustment policies.

Such western initiatives, however, do not win unvarnished approval from the countries they are supposed to help. If Mr Camdessus has proved more imaginative than his predecessor as the Fund's managing director, he has not banished the puritanical ethos which pervades the Fund's far-from-austere Washington headquarters.

For the developing and debtor countries more money means more strings - and the money is, anyway, far from enough.

Thus the new CCFF facility will considerably tighten the conditionality of such loans. Any borrowing above 20 per cent of a country's quota will have to be attached to a Fund programme, and even the first 20 per cent will have some conditions attached. That may well diminish its effectiveness in responding quickly to the needs of borrowers. It will no longer, in the jargon, be "quick-disbursing".

The US is similarly determined that any expansion of the EFF should be strictly limited to those countries which have shown particular compliance in their dealings with the Fund. In those circumstances, debtor countries, already uncertain of their ability to sustain adjustment programmes over a number of years in the present world economic environment, are doubtful that long queues will be forming at Fund headquarters to use the facility.

More generally, technical improvements to the Fund's lending facilities will do little to ease the burden imposed on developing nations by the existing stock of debt.

Over the past five years debtors have had to transfer a net $75bn to their creditors; and on current trends, IMF projections suggest that the debt/export ratios of heavily-indebted nations could be 60 per cent higher in 1992 than at the start of the present crisis in 1982.

What is needed, according to the debtor nations is a much smaller stick and a much bigger carrot.

Larry Speakes tells it as it was

By Lionel Barber in Washington

MR Larry Speakes, the former White House press secretary, has confessed to fabricating some of President Reagan's more historic pronouncements and retailing them as the spoken word of the President.

Two quotes were widely reported by the US press at the 1985 Geneva summit, when Mr Speakes felt that the Soviet leader, Mr Mikhail Gorbachev, was upstaging Mr Reagan.

Mr Speakes says in a book published this week that the younger Mr Gorbachev had an ability to fashion quotes for the history books, so he and a trusted White House aide cooked up a counter-quote.

"There is much that divides us, but I believe the world breathes easier because we are talking here," Mr Reagan is now revealed not to have told Mr Gorbachev.

Another false summit quote fed to the news-hungry White House press corps had Mr Reagan saying: "Our differences are serious, but so is our commitment to understanding."

Mr Speakes, now a public relations executive at a Wall Street investment bank, says in his book Speaking Out that he fabricated another quote after the Soviets shot down a Korean Air Lines passenger plane in 1983.

Recalling that Mr Reagan had reluctantly accepted advice to return from a California vacation, Mr Speakes says the President attended a Cabinet session but said little of note.

He therefore lifted words from Mr George Shultz, US Secretary of State, referring to the KAL shooting as a disaster for the Soviets, and put them into Mr Reagan's mouth.

Neither man complained but then Mr Reagan, as a former actor, knows the value of a good script writer.

Mr Speakes' successor as White House spokesman, Mr Marlin Fitzwater, yesterday described the practice of making up quotations as "a damned outrage."

"Everybody's appalled that he did it," he said. He himself took notes during meetings with the President. "If he didn't say it, I won't say he said it," he added.

Cuomo claims he is out of Democratic running

BY JAMES BUCHAN IN NEW YORK

AS THE race for the Democratic Party's presidential nomination enters the dim factional and racial maw of New York City, at least one crucial issue has been cleared up: Mr Mario Cuomo, governor of New York State, is not a candidate.

Definitely. Probably definitely. Probably.

Mr Cuomo, who from the governor's mansion in Albany, New York, has watched the Democratic field whittle down from seven to three, has consistently refused to rule out accepting what is known as a draft: a last-minute appeal from desperate party interests that he stand.

Regarded as a potentially strong candidate since the 1984 party convention, Mr Cuomo's presence in the wings has unsettled some party leaders and may have hindered the campaign of his fellow governor, Mr Michael Dukakis of Massachusetts.

But in an interview published in Monday's New York Times, Mr Cuomo went a long way to saying he would not accept a draft. Mr Cuomo, a master of evasion often compared by New Yorkers to Machiavelli, did not actually say so. What he said was: "It's been such a story, such a large irrelevance. It's not useful. I have to end the discussion of it. It's not good. We should be talking about Jackson, Dukakis, Gore. It's important to get me out of the way."

Financial Post to start satellite printing

THE Financial Post, the Canadian financial newspaper in which Mr Conrad Black, the Daily Telegraph proprietor, and the Financial Times have a stake, is to begin satellite printing in Western Canada this autumn, the paper's board of directors said in London yesterday.

The weekly Financial Post was relaunched as a daily earlier this year.

Securities dealers urge standards on information

BY JANET BUSH IN NEW YORK

THE National Association of Securities Dealers yesterday published a report calling for uniform industry standards in the US to prevent misuse of non-public information which could lead to insider trading.

The study charged that neither the Securities and Exchange Commission nor the various self-regulatory organisations had issued regulations which had established minimum standards and requirements for so-called Chinese Walls.

Chinese Walls are self-imposed information barriers within companies designed to prevent conflicts of interest between a company's trading and advisory activities.

The study by NASD, which oversees the Nasdaq-over-the-counter market, said minimum standards should be enforced through on-site examinations by itself and self-regulators.

It also called for the refinement of automated market surveillance programmes designed to detect insider trading violations and market manipulation. The NASD urged the automation of all investigatory procedures and the establishment of rules which would require member firms to submit regulatory information electronically.

Another key recommendation is that some regulatory matters should be referred quickly to state authorities for possible criminal prosecution and that limits on fines for market malpractice should be abolished.

The publication of the study is part of an effort within the securities industry to tighten up market regulation in response to the criticisms of self-regulators in reviews of the October market crash.

In its report, the Securities and Exchange Commission urged more regulatory vigilance and efficiency on all the exchanges under its oversight.

WORLD TRADE NEWS

VW 'sees sharp fall in Brazil sales to US'

By Ivo Dawnay in Rio de Janeiro

VOLKSWAGEN do Brasil is believed to have lost orders for 20,000 Fox cars worth some $150m (£83.3m) after a sharp fall in demand in its crucial North American export market.

The company, which aimed *to sell 100,000* units to the US and Canada this year, has long been arguing that Brazil's cruzado currency is 30 per cent over-valued in relation to the US dollar.

A company official refused *to confirm or deny the report*.

The Fox, a small family saloon marketed in Brazil as the Voyage, is being sold in the US at some $6,500 after a 10 per cent price rise at the beginning of this year.

American dealers are reported to be meeting fierce consumer resistance to the price increase as well as strong competition from other imported models, in particular the Yugo from Yugoslavia and South Korea's Excel.

Brazilian car exports have been increasing strongly recently with sales showing a 72 per cent rise to $757m in the first quarter. The improvement has balanced a marked decline in domestic demand after the surge in 1986.

Volkswagen, which shares a joint venture in Brazil with Ford under the holding company, Autolatina, had calculated that sales of the Fox in North America would rise from 70,000 last year to 100,000 in 1988.

Last September, Autolatina won the freedom to set its own prices in Brazil in return for meeting export targets.

The company is still pushing, however, for a substantial reduction in taxes on cars in the home market. At present, the Fox's $6,500 price in the US is equivalent to some Cr784,000, whereas in Brazil *taxes of* 42 per cent raised the retail price to Cr860,000.

Mr Wolfgang Sauer, president *of Autolatina, has* commented that if the government reduced the taxes, many more workers could be employed at the company's Sao Paulo plants.

Overseas investors in Chile are hedging their political bets

Uncertainty over the forthcoming plebiscite is not deterring a wave of foreign money, writes Mary Helen Spooner

SOME $1.4bn worth of overseas investment in Chile was authorised by General Augusto Pinochet's military government in the first three months of this year. Foreign investment funds actually disbursed amounted to $202m, an increase of 224 per cent over the corresponding period last year, according to the government's Foreign Investment Committee.

Last month saw the signing of a contract for the largest ever *foreign investment project* in the country: the exploitation of the La Escondida copper deposit, in which Australia's Broken Hill Proprietary, plus Rio Tinto Zinc and a Japanese consortium headed by Mitsubishi will invest $1.1bn.

Paradoxically, the final accord was signed during a period of considerable political uncertainty, as the 14-year-old military administration prepares a plebiscite in which a single presidential candidate, who could be General Pinochet himself, will run in a "yes or no" election.

If the government candidate wins, he will serve for an eight-year presidential term ending in 1997. That is the outcome preferred by much of the Chilean and expatriate business community. At the same time, many foreign companies are betting that Chile's investment climate will *not be unduly affected* by political changes even if the "no" vote wins.

"When foreign investors come to Chile, they take care not only to talk to the government, but to people of other views as well," *said Mr Fernando Alvear*, executive secretary of the Foreign Investment Commitee.

"And the impression they are getting is that in the long run, even if the political situation changes the overall economic policy will not be unduly affected," he said.

Many foreign companies considering investment in Chile are sending their representatives to see opposition politicians as well as officials of the Pinochet regime. One banker in Santiago said the appointments he set up for a foreign client included a meeting with a leader of Chile's Socialist party. *He* joked that he would also have arranged an appointment with the country's tiny Marxist guerrilla organisation, the Manuel Rodriguez Patriotic Front, had he known whom to call.

Nevertheless, many Chilean opposition figures are highly sceptical of foreign investment: some object on ideological grounds and others on the basis of nationalism.

Mr Manuel Bustos, the leader of Chile's largest labour organisation, the National Workers' Command, said recently that foreign investment projects involving *previously state-owned holdings* would be reviewed when Chile returned to democratic government.

"All these companies which produce wealth for the country should once again be the property of all Chileans," he said.

A detailed view of likely *changes in economic policy* is contained in a document released jointly this year by Chile's largest political party, the Christian Democrats, and several smaller opposition groups. It said the private sector should play a leading role in economic development and that private property would be respected. But it also proposed restricting new investment in the banking and mining sectors and reserved the right to review existing contracts.

Mr Ramon Briones, who heads the Christian Democrats' economic commission, said that in principle, he believed Escondida was the sort of foreign investment project which benefited Chile.

But he also said there should be some co-ordination with the Chilean state mining company Codelco for marketing and sales in order to avoid depressing the price of copper.

La Escondida is expected to begin production in 1991, with about 350,000 tonnes of copper

The Christian Democrats and other opposition groups, have criticised the sales of 30 per cent of the Chilean phone company's shares to Australia's Bond group, which bought the package late last year as part of the regime's privatisation programme.

Given the profitability of the phone company, which earned over $30m last year, and its strategic importance, the criticism was perhaps not surprising. It was directed partly against the privatisation programme itself, and partly against alleged irregularities surrounding the transfer of the shares to the Bond group. Mr Alan Bond may have added to the controversy when he remarked following his trip last year to Santiago that Chile's administration was "not a dictatorship but a well-run military government."

Although Chilean opposition groups have never called for a South Africa-style disinvestment campaign, this situation could change if the country's human rights situation deteriorates further, and if the forthcoming plebiscite is held under politically repressive conditions.

The US, citing the regime's labour record, has removed Chile from the list of countries covered by the Overseas Private Investment *Corporation (OPIC), which* insures US investments overseas.

Additional US economic sanctions could be in store if the Pinochet regime launches a pre-plebiscite crackdown on its opponents, or if Chilean authorities appear *to have determined* the voting's outcome in advance.

Many foreign companies are betting that the investment climate will not be unduly affected even if Chileans vote "no" in the referendum

Voest-Alpine wins Sch1bn S Korea steel plant order

BY JUDY DEMPSEY IN VIENNA

VOEST-ALPINE, Austria's state-run steel and engineering group, has fended off Japanese competition by winning a contract to build a large steel complex for the Posco company in Kwangyang, South Korea.

The deal is worth Sch1bn (£46m) and involves V.A. Industrie Anladen Bau, a 100 per cent subsidary of Voest-Alpine, supplying equipment and constructing the plant which will cost over Sch600m, as well as producing finished steel products which will earn the company Sch400m.

This is the third steel plant Voest-Alpine has built for Posco. *It will consist of two production* units and will have an annual production capacity of 2.8m tons.

This particular contract could mean the slow recovery of Voest-Alpine, which lost over Sch8bn in 1987 and is expected to record similiar losses for this year.

The company is hoping to reduce its losses in 1989 through a radical re-organisation involving substantial job losses, new investments and the setting up within the company of more specialised groups, such as Industrie Anladen Bau.

Voest-Alpine said the contract was won without any subsidies or financial assistance from the government, although Oiag, the holding company of the state-run industries, continues to subsidise Voest-Alpine.

The company is optimistic that more deals could be done with South Korea, which has a large world market share in the manufacture and supply of steel.

R-R in £60m engine deals

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

ROLLS-ROYCE has won new orders for aero-engines worth over £60m, including spares.

Air New Zealand has selected the RB-211-524G engine for its single Boeing 747-400 long-range jet airliner now on order. Rolls-Royce says this will result in £40m of business, spread over the life of the airliner in service.

Rolls-Royce has also won £22m of new business from Monarch Airlines, based at Luton Airport, which has ordered the Rolls-Royce RB-211-535E4 engines for another two Boeing 757 twin-engined medium-range airliners to add to the six 757s already in its fleet.

Dutch awarded HK airport study contract

By David Dodwell in Hong Kong

PRESSURE for a new airport in Hong Kong to replace the territory's *single-runway airport in* the heart of Kowloon has been given fresh impetus with the appointment of a Dutch consultant to carry out a 15-month study on alternative sites in the territory's western harbour area.

The contract for the consultancy, worth HK$14.4m (£1m), went to Netherlands Airport Consultants and is one of four now under way aimed at determining Hong Kong's long-term air transport needs.

The government has yet to say categorically that a replacement *airport will be built, but* authorisation of another consultancy makes an eventual move from Kaitak increasingly likely.

Debate on a replacement international airport was revived at the *beginning of last* year when the construction group, Hopewell Holdings, presented the government with proposals worth HK$20bn to develop a new port and airport in the western harbour area south of Lantau island.

Government plans to build a replacement airport were shelved in 1982. A decision on a new airport is expected by the end of 1989.

Boost for China-Soviet trade

BY ROBERT THOMSON IN PEKING

CHINA has opened the way for increased trade with the Soviet Union along its disputed northern border by allowing five river ports to trade directly with Soviet cities.

The central government has also permitted Heilongjiang province, which shares a 3,000km border with the Soviet Union, to approve labour export projects, establish joint ventures and open local agencies to encourage border trade.

Hou Jie, Heilongjiang's governor, was quoted in the official *China Daily* as saying he wanted to ensure that the province took advantage of trade powers delegated by the central government by exploiting its proximity to the Soviet Union.

Border trade stopped in 1966, when the two countries fell out over *ideological and military* policy, and over the location of the border.

Recent rounds of border talks appear to have eased tension in the area. The five cities newly designated as trade ports are on the disputed Amur and Ussuri rivers, which denote the border.

Three cities are already empowered to trade with the Soviet Union, and another eight will receive approval in coming months, according to Hou, who suggested that China could export industrial products and import timber, fertiliser and power.

Border trade, which re-started in 1982, amounted last year to $38.7m (£21.5m) and Chinese officials expect a significant increase this year.

Hou said the province has 22 large factories built with Soviet help in the 1950s and now in need of renovation, and he even suggested that Heilongjiang with 3m unemployed people could export workers to the Soviet Union.

GE in Taiwan power venture

BY BOB KING IN TAIPEI

GENERAL Electric of the US has begun building four conventionally-fired generating facilities worth $1.5bn in central Taiwan, *just as Taipower, the state-owned* power monopoly, has shelved indefinitely plans for a fourth nuclear project.

GE also expects to be strongly in the running to supply another one or two conventional facilities a year after 1994, when the last of the four current plants is due to go on line.

Taipower plans, based on an annual increase in demand for power of 10-12 per cent, call for an additional 1,000MW capacity a year through to the end of the century, which makes Taiwan *the second fastest growing power* consumer in the world after South Korea, a GE official said.

The price of about $400m for each facility includes $100m for pollution-control equipment. The government's decision indefinitely to postpone the fourth nuclear project was due in part to *public concern over pollution* - and possibly to disclosures that several leaks had occurred at some of the three existing *nuclear facilities since 1985*.

Taipower has admitted that several minor leaks have occurred over the years - the latest of which last week caused the shut-down of both reactors at one of its facilities in northern Taiwan near Taipei.

Taiwan's decision to go ahead with conventially-powered generating plants could prove a boon - at least in the short-term - for coal-producing nations such as the US and Australia, which have traditionally supplied much of Taiwan's steam-coal needs.

Amsterdam SE deal for Norway group

By Karen Fossli in Oslo

EB NETCOM, a division of Elektrisk Bureau, the Norwegian electrical engineering and telecommunications group, has won a contract to supply the Amsterdam Stock Exchange with a telephone-based trading system, in co-operation with Ericsson of Sweden.

EB beat British Telecom to win the contract. It represents a breakthrough in the financial markets for EB Netcom's digital control communication system, DCX-5. EB's equipment will be part of a system with 1,300 lines.

EB says that the system is being marketed in co-operation with Sweden's Ericsson Business Communication Systems as the MD110/FS. In January a similar system, supplied by EB Netcom, was brought into service at Christiania Bank, Norway's second largest bank.

That system, which EB supplied for NKr25m (£2.1m), provides the communications link for some 146 foreign currency exchange dealers in the bank's Oslo headquarters.

The system being supplied to the Amsterdam stock *exchange* is to be brought into operation in September. EB *says it could also* supply the bourses in Belgium and Finland with the MD110/FS.

Wimpey agreed to build a giant toy shop for Christmas. But we only had sixteen weeks to play with.

Before: What a site for Wimpey.

After: What a sight for kids.

So what was the Wimpey response to this exciting but rather daunting commission?

We did our homework, of course.

Toys 'R' Us is certainly a lesson in how to succeed in business. They've revolutionised the toy industry with a totally new concept: the toy hypermarket.

As a result they're the fastest growing toy retailer in the world.

Wimpey has built stores for Toys 'R' Us before. We therefore had a good idea of the type of building they required for their new store in South Wales.

So as well as setting up a fast track design and build programme, we also assembled a team of local architects, surveyors and engineers, which meant that at every stage in our construction programme we were given a green light, and not a length of red tape.

And when it came to the actual building of the store, we employed the talents and skills of the local workforce.

It was because of this firm local base that we met our target date and were able to incorporate last minute design alterations while building was in progress.

This flexible approach to any building project, small or large, has not only been successful in Wales.

It works for Wimpey in every one of our regions throughout the UK.

And it means all the strengths and resources of a major national and international contractor can be used to support local knowledge and meet local needs.

In fact for Wimpey, sixteen weeks to build a huge toyshop was almost child's play.

WIMPEY
Breaking new ground.

CONTRACTING, MINERALS, PROPERTY, CONSULTANCY, HOMES AND LEISURE

MANAGEMENT

Asea-Brown, Boveri merger

Powering ahead with a team of 'superstars'

William Dullforce explains why speed was of the essence after the Swedish and Swiss electrical engineering groups joined forces last August

FOR PERCY Barnevik, speed was of the essence when he embarked last August on what must be one of the decade's most challenging management assignments – merging Sweden's Asea and Switzerland's Brown, Boveri into the world's biggest electrical engineering group.

Speed was necessary to stop competitors stealing market share while the fusion was being effected, to inject dynamism from the start into an implicitly overweight giant and to persuade managers to "focus their attention on the future, not on their own security."

A week of turmoil followed the anouncement on August 10 of the intention to merge. Barnevik, 46, Asea's managing director who was appointed chief executive officer of the new concern, decided there was no time to look for outside consultants.

Instead, together with Thomas Gasser, his Swiss deputy chief executive officer, he selected 10 internal consultants, "superstars, the best and brightest". He divided among them the two groups' multifarious businesses to probe, analyse and recommend how they could be fitted together product-wise and country-wise.

Within six weeks the 10 had reported and were then appointed, each with clearly defined responsibilities, to form an executive board together with Barnevik and Gasser. Not all ended up in charge of the business areas they had investigated.

This is where the superstar managerial quality was put to the test. "We needed to create new alliances and loyalties, making it possible for a manager to abandon a product in return for another. It is natural for people to defend their fiefs but we had to ask them to be unnatural," Barnevik explains.

A 50/50 division between Asea and Brown, Boveri was maintained. "This is a true merger with no winner, no loser and we must build on our common strength," Barnevik says.

Two more weeks were spent on designating business areas and settling in-country mergers. At mid-November Barnevik decreed that the structure of the new group ABB had to be in place by Christmas Eve.

By then, with Barnevik and Gasser doing most of the interviewing themselves, 500 senior managers had been nominated and their jobs defined. ABB had emerged as a $18bn-a-year basically European enterprise, structured into 40 business areas, operating in some 140 countries from a headquarters in Zurich which Barnevik says will be limited to 50 people, including secretaries.

Since he started to improve Asea's performance eight years ago, decentralisation has been the core of Barnevik's management style. ABB is rapidly being organised into more than 3,000 semi-autonomous profit centres.

Is the demandingly fast pace set by Barnevik working? By one short-term measure: Yes. ABB took $5bn in new orders in the last quarter of 1987. That was above target and the order inflow has remained firm during the first part of 1988.

Speed of restructuring in itself has not brought in the orders. The word went down from Barnevik that managers had to go out and talk to customers – which meant a change in practice for some. Barnevik thinks the merged group may inevitably lose market share in some areas, as it races to organise itself, but can compensate in others and will not end the year as a net loser.

ABB is now into the second stage of what Barnevik likes to describe as a two-stage lift-off. The second will be primarily a cost-cutting, capital-reducing process, which he admits may be painful. But, he insists, it will lead eventually to expansion and improved earnings.

Long-term success inevitably depends on the viability of the underlying strategy adopted by Barnevik and his board. Unlike some of its main rivals – General Electric and Westinghouse, for example – ABB is eschewing diversification from electrical engineering.

In particular it is sticking to the power business which other companies now see as a "dog". Demand for power plant has declined from over 80 gigawatts in 1978 to some 30 gw a year in the last two years.

The merger has made ABB the world number one in the power business at a time when "the industry is screaming about over-capacity," Barnevik acknowledges. But, he argues, "there's still lots of money to be made."

Asea achieved an 11 per cent profit margin (operating profit after depreciation as percentage of sales) in 1987 from power generating plant, high-voltage long-distance transmission equipment and the medium-voltage distribution business. On the rest of its operations the margin was around 5 per cent. Bring the combined group's operating margin on the power side to a level comparable with Asea's and ABB should be on the way to respectable earnings.

Some 44 per cent of ABB's current turnover derives from the three power segments. Barnevik's strategy aims at exploiting its size to become the lowest-cost supplier worldwide, ready for the time when a combination of rising electricity consumption and increasingly frequent blackouts in overloaded electricity systems revives demand.

In the meantime it will use its technological strengths (considerable but under-utilised in Brown, Boveri) to make money in retrofitting and upgrading power plants, in tying together networks and cutting down their transmission losses and in growth niches such as gas combine plants and clean coal techniques.

Its size, according to Barnevik, means that ABB can remain the technological leader, continuing to spend at a rate of $1.2bn a year on research and development. The group is staying with the whole spectrum of electricity-generating plant from fossil fuels through hydro power, where it has a large share of the world market, to nuclear, where, Barnevik says, money is still being made in servicing, revamping and providing fuels for plants.

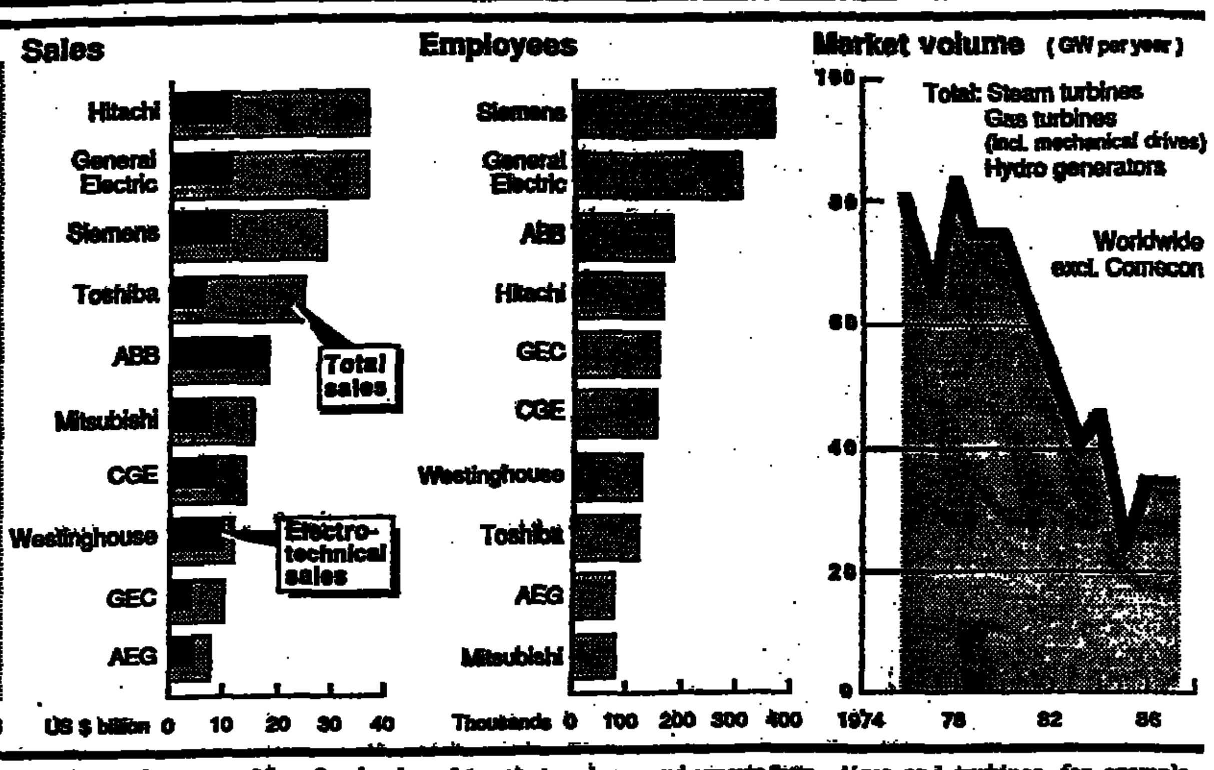
"We shall take a total grip (in the power business)," Barnevik says. He attaches particular importance to ABB's relationship with power utilities. "It is extremely important for them to know that we shall be around as suppliers for the next 10 years. On the other hand, if we cannot make money with the utilities, then the whole of ABB will fail."

The only other "group" which will be offering such a complete range of power plants as ABB is what Barnevik calls Japan Incorporated. He tends to see Hitachi, Mitsubishi and Toshiba as a single competitor.

Beyond the power business ABB has an important segment embracing transport, electrical control equipment for industry and factory automation. Combined sales totalled $1.6bn last year.

Barnevik enthuses about the "hand in glove" fit between Asea and Brown, Boveri's transport sectors, where the new group has a technological lead in electric traction equipment to exploit. The markets are in high-speed trains, the upgrading of railways and clean urban transport systems.

Percy Barnevik



Source: ABB

The strategy then is clear and Barnevik insists it is wholly offensive. The aim is to win market shares even on markets without overall growth. The strategy also poses the management challenge, which has three aspects. These are to reconcile the considerable differences in management style between Asea and Brown, Boveri, to fit the bits together geographically and, above all, to rationalise the group into a slim, hungry competitor.

Over the last eight years Asea had become a decentralised profitable organisation with a lot of go in it. By comparison with Brown, Boveri, though, it lacked technological depth and capital resources: it depended too heavily on the Nordic market, on the Swedish economy and on exports.

Brown, Boveri spent much more on research and development and possessed vast, commercially unexploited technical skills. Its production costs were far too high, it had too much capital tied up, severe over-capacity in the power field and its earnings were pitiable. But it was solidly anchored in West Germany, had a good footing in Italy and a significant presence in the Third World.

Asea achieved a 16 per cent return on capital employed overall – 20 per cent in its Swedish companies – last year. Brown, Boveri published no comparable figures but its return was far lower. Barnevik sees no reason why ABB's return should be inferior to that of Asea.

He wants the capital turnover rate (assets to sales) raised from 0.9 to 1.25, to free some $4bn. Overheads, inventories and receivables are being drastically trimmed.

Last year ABB generated 38 per cent of its sales in the European Community and 31 per cent in the Nordic countries. West Germany makes up the biggest national market, providing sales of $3.3bn last year. But Germany's Siemens is also its toughest rival in Europe.

While Barnevik sees growth opportunities in Europe, particularly in Italy and Southern Europe, he points out that Western Europe as a whole makes up only 20 per cent of the world market for electrical engineering.

North America accounts for some 30 per cent but takes only 9 per cent of ABB's sales. The developing countries, which provide 28 per cent of the world market, provide only 18 per cent of ABB's turnover. Barnevik eyes the potential greedily.

He said from the beginning that he was most likely to use the war chest of $4bn, which he picked up through merging with Brown, Boveri, in North America, "a crucial market where there is room for greater penetration." Innovative technology was to be the main theme of ABB's marketing approach there. It had already intensified its contacts with US power utilities.

Yesterday's announcement of joint ventures with Westinghouse in power generation and transmission means that he has joined forces with one of his two main rivals in the North American market.

Investments will also be made in the Third World, where Barnevik names the Asean countries as particularly interesting. ABB plans to use its financial services division (annual turnover already $1.2bn) to supplement direct investments with finance for project packages and exports from Europe.

It is in Europe that the cost-cutting will be made. "We have an over-capacity problem and it is obvious that some factories must close," Barnevik says. He declines to be specific. Nationalist sentiment poses difficulties when a group undertakes a cross-European rationalisation programme. It is also evident that the Brown, Boveri half of the group will bear the brunt.

Barnevik explains the general approach. In manufacturing duplication will be avoided.

The concept of the "dedicated factory" is central to the restructuring]. Barnevik's team found too many plants doing "mundane work", such as putting housings round components, which sub-contractors could do more cheaply.

Asea's recent past gives a clue about the "dedicated factory" approach. When it took over Finland's Stromberg company, it closed down the manufacture of AC motors in Vasteras, Sweden, and transferred production to Helsinki, which concentrated on bigger generators.

The Finnish company stopped producing traction and DC motors, which went to Vasteras. In the newly "dedicated" plant in Finland the volume was doubled, sufficient to make it economic to instal a robot production line. Similar product exchanges, to obtain volume in individual plants, are now likely to be commonplace.

However, Barnevik points out, "we are not like Electrolux, which can make white goods in Italy and sell them in Sweden. We will not get power plant and railway contracts in Italy, if we do not make the stuff there." ABB has to strike a balance between producing the bigger electrical engineering products – locomotives and turbines, for example – within its major national markets and organising on a Europe-wide basis for a low-cost attack on the global market.

Similar considerations apply to its research and development effort. Basic research is being concentrated in "centres of excellence" which will have overall responsibility for specific fields. Swedish, Swiss and Norwegian susceptibilities were stirred when Mannheim, West Germany, was allocated industrial automation.

However, Barnevik plans to "house product development and marketing under one hat," to overcome what has certainly been Brown, Boveri's weakness in matching its research to customers' needs. The transformation will follow from decentralisation into profit centres.

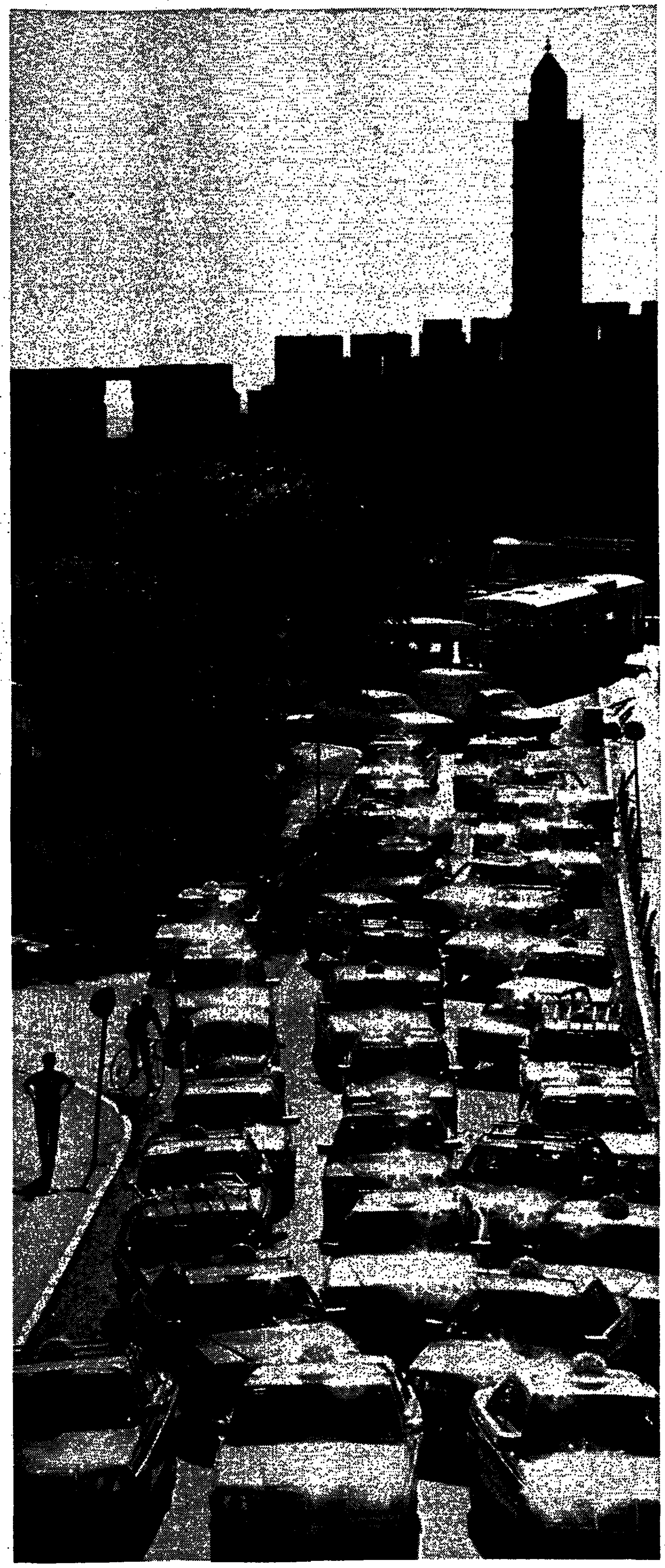
Ideally, Barnevik would like to end up with the laboratories working on product development drawing the bulk of their funds from operating units. "Central labs funded by central management tend to go off at tangents, looking for state-of-the-art leads. If two-thirds or even half their money comes from profit centres, they listen more closely to the market," he says.

ABB is experiencing a convulsive merger. Barnevik is almost certainly right to believe that speed of decision and action, combined with a clearly enunciated strategy, helps to motivate managers and give the new concern direction and impetus.

He knows, too, that decentralisation on the scale he is attempting has to go hand in hand with quick reporting and control. Told that it would take three years to instal a new information system, he insisted it be ready for trial runs in August. "To succeed, you have to be fast everywhere," he comments.

AT SHERATON LITTLE THINGS MEAN A LOT • AT SHERATON LITTLE THINGS MEAN A LOT • AT SHERATON LITTLE THINGS MEAN A LOT

"I'VE LEFT MY UMBRELLA IN A TAXI."



To be fair, our American guest did give us a clue.

"It's a Mercedes," he told us. No kidding. Just like the other 999 taxis cruising the streets of Jerusalem.

In such circumstances, the majority of staff in the majority of hotels might, understandably, have offered sympathy and very little else.

Fortunately for the owner of the brolly, he was staying at the Sheraton.

And although the odds of finding a needle in a haystack were slightly shorter, this didn't deter our doorman.

To him, the lost umbrella came as a personal challenge.

With the chances of finding it slim by anyone's standards, he was on the case.

Two days later, the taxi was located and the brolly returned to its incredulous owner.

At Sheraton, we have a training programme for all our staff which aims to impress upon them our idea of service.

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It would appear that the doorman from the Jerusalem Sheraton, for one, has got the message.

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TECHNOLOGY

Worlds apart in battle against infant mortality

Paul Abrahams reports on the Task Force for Child Survival

THE LIVES of some 7m children have been saved since 1984 through a worldwide immunisation programme. But the organisations involved are divided about how the project should progress.

The programme, called the Task Force for Child Survival, has transferred medical technology to often remote communities in lesser developed countries, vaccinating children against diseases such as measles, polio, diphtheria, whooping cough, and tetanus.

But at a meeting of the Task Force last month in Talloires, France, it became evident that its members, which include Unicef, the World Health Organisation (WHO), the World Bank, the United Nations Development Programme and the Rockefeller Foundation, are split over the programme's future.

The debate is important because of the ramifications of continuing high infant mortality and birth rates. Halfdan Mahler, the director-general of the World Health Organisation, explained the dangers: "The world will pay dearly if it ignores what is happening. There is a serious risk of a geo-political explosion if we continue this malign neglect of the three-quarters of the world's population. Cynicism has crept into attitudes towards the South."

William Foege, executive director of the Task Force, demonstrated the possible benefits of the scheme. He argued that there was a direct link between infant mortality rates and birth rates. Declining infant mortality rates acted as a predictor of falling birth rates. Mothers seeing more of their children live through their first year were less likely to want further infants, he said.

Margaret Catley-Carlson, president of the Canadian International Development Agency, suggested it was possible that in the next two decades, for the first time, there might be more deaths than births in the world. She suggested that a static world population of 8.5bn was a possibility.

But with the potential rewards so high and the dangers so evident, some of the institutions in the Task Force are now criticising the validity of continuing a tightly focused vertical campaign concentrated solely on vaccination.

At the Talloires meeting, John Seaman, senior medical officer at the London-based Save the Children Fund, argued that, at worst, innoculation campaigns, which sometimes incorporated much publicised national vaccination days, could actually be destructive – diverting scanty resources away from primary health care and the creation of medical infrastructure for the sake of unsustainable short-term benefits.

The best results have been achieved in countries such as Chile where that infrastructure already existed. In areas lacking infrastructure initial successes were impossible to sustain. Mahler pointed out that in Peru, where the campaign increased polio vaccination coverage from 32 per cent in 1984 to 51 per cent in 1985, the figure had slipped back almost to the original figure by 1987.

"Development cannot be sliced into little pieces – certainly not into slices that benefit individual and institutional egos and are mostly hot demagogic air," said Mahler.

"The situation is complicated – everything interacts. God protect me from the simplifiers," he said, quoting Einstein, "I can deal with the complicators."

Mahler argued that it was necessary to re-allocate resources horizontally along a broad front which included primary health care, management training, family planning, and most important, education. "Half of the job is done when women have some education. Women are at the forefront of the battle for child survival," he said.

The importance of a country's infrastructure for the success of health projects was also emphasised. All too often, children in the most remote rural areas and in shanty towns – those most in need of vaccination – are not reached by campaigns.

Ruhakana-Rugunda, the Minister for Health in Uganda, pointed out that it was difficult to sustain programmes in his country when only 27 per cent of the population lived within five kilometres of a health unit and only 57 per cent within 10 km.

Those who believed in the value of focused vertical campaigns admitted the limitations of these projects. However, they argued that the achievements of the Task Force, so far, had been impressive because the realistic had been attempted. This year, for the first time, more than half the children in the world had been vaccinated. A target of 70 per cent coverage had been set for 1990.

Furthermore, they insisted that the Task Force had helped to force health issues on to the political stage. Vaccination programmes were receiving unprecedented political support and national leaders had personally identified themselves with vaccination programmes. Men such as Li Xiannian, Chairman of the People's Republic of China, and President Suharto of Indonesia had been photographed administering vaccines.

Foege said that the Task Force had an important role as a Trojan horse through which primary health care could be strengthened and even created.

Anthony Robbins, a professor at the School of Public Health at Boston University, said: "The revolution taking place in biotechnology is not being matched by a revolution in the management of that technology. Only when the technology is successfully transferred to those who most need it, will we really reap the benefits. The Task Force provides that opportunity."

Others were less enthusiastic about the possibility of using the Task Force vaccination programme as a means of introducing primary health care.

"Again and again we have been told about miracles," said Wulf-Dieter Ernert, a section chief at the West German Ministry for Economic co-operation. "First the malaria campaign using DDT was given as a point of entry for health care. Then hardware family planning was to be used. Now we are told vaccination campaigns will be a Trojan horse. The point of entry philosophy will never work unless there is the pre-condition of basic health care."

However, Foege countered these arguments by saying it was better to do something than nothing. He said advantage must be taken of initiatives such as the Task Force, even if it did not provide a total system.

But all these arguments could be made academic by the economic crisis now gripping the South. The cost of political unrest, low commodity prices and debt burden in countries that were far from developed before the present crisis, could be high.

"If health care is to be successful it must be sustainable. And it can only be made sustainable by the lesser developed countries themselves. But if their per capita incomes continue to decline then any progress will be eroded, if not completely compromised," said Ruhakana-Rugunda. "The African countries are not developing, they are regressing," he added.

Barber Conable, President of the World Bank, agreed: "The health problems of the world will not be solved until the economic growth problem is solved."

Conable admitted that although the World Bank had just received permission to lend an extra $75bn, many of the countries were incapable of paying back the interest on loans already made. During the conference, it was pointed out that the Inter-American Bank had $700m lying idle because South American countries were unable to make the basic loan repayments. Sub-Saharan Africa was paying out more in interest than it earns through exports, the meeting was told.

But all the gains in mortality rates could be stifled by the advent of AIDS – described at the conference as "the unwelcome guest at our table".

In his concluding address Mahler warned: "AIDS has become a drama. We must be sure that it does not become a tragedy."

Promoting immunisation in Bolivia as part of World Health Day 1987. This year, for the first time, more than half the children in the world have been vaccinated. A target of 70 per cent coverage has been set for 1990

Biotechnology will trigger the revolution

A WORLD revolution and a new era in health care were promised at the Talloires meeting of the Task Force for Child Survival. And the trigger, the meeting was told, would be biotechnology.

"Genetic engineering will lead to the creation of a new age of vaccines," said Dr Kenneth Warren, a member of the Rockefeller Foundation. "It is almost inevitable that over the next 20 years it will become possible to produce vaccines through biotechnology for most infectious and parasitic causes of death," he added.

Although biotechnology has, as yet, disappointed medical experts by failing to yield any substantial medical breakthroughs, Dr Warren was optimistic about the future. Genetic engineering had already helped to create vaccines against hepatitis B, he stated.

Trials were being conducted for a malaria vaccine which, Warren claimed, was the first to be created synthetically step-by-step in a chemistry laboratory.

It was made by building up chains of the particular amino acids which produced immunity, rather than manipulating much larger natural protein molecules. This approach avoided unwanted side effects from the remainder of the protein.

The genetic manipulation of amino acids could also avoid the problem which exists at present in administering certain vaccines simultaneously. Some current vaccines interfere with each other, and the new approach could for the first time allow a rotavirus vaccine, which helps to deal with diarrhoea, to be given effectively with a polio vaccine.

Through genetic engineering it may eventually prove possible to use a single shot to vaccinate fully against a large number of diseases. This will help avoid the present difficulty in reaching people to give them several separate vaccinations

The prize at the end of the biotechnology revolution could be the lives of the 7m to 8m children who die each year of diarrhoea, 4m to 5m who die of acute respiratory infection and 1m to 2m who die of malaria.

WORTH WATCHING

Edited by Geoffrey Charlish

Seiko swings towards self-winding watches

SELF-WINDING watches of the purely mechanical variety have been common enough for several decades, but Seiko of Japan has taken the idea a step further.

Such watches use a tiny pendulum which swings rapidly back and forth as the wearer moves around. With the aid of a ratchet, this oscillating motion always turns the pendulum shaft in the same direction, winding the spring.

The Seiko engineers have used the same rotational energy to drive, through a gear train, an electrical microgenerator. The generator current keeps the watch going directly through a power control circuit and a storage capacitor. No batteries are used.

Producing a constant supply of current in this way has allowed Seiko to offer a £150 quartz watch that needs no winding, battery changing or attention of any kind.

Called AGS (automatic generating system), the watch can store enough power to keep going for 72 hours when off the wrist. Seiko claims the generator in the watch is the world's smallest, with a volume one seventh that of a 5p coin.

Designs on the body beautiful

AXIS SOFTWARE Systems, a small UK company, has developed techniques for capturing images of the surface contours of the human body and building them into a "solid" model on a computer screen.

The initial research was carried out in conjunction with the UK Ministry of Defence and looked into the relationship between equipment for the armed services and the military personnel who have to use it.

Standard data about the human form is not sufficient, according to Axis, particularly when special kinds of body or limb movement are involved.

Interest in the modelling technique is also being shown by the fashion industry, and by the vehicle industries, where driver ergonomics and passenger comfort are key considerations.

Archaeologists may also benefit by being able to "fit the body to the bones."

With the Axis system, planes of light are projected to cut across a body. These make distorted lines because of the body's contours and, when viewed from a suitable angle, are recorded by a camera.

The data is digitised and turned into three-dimensional model information which allows the body to be displayed. With further software, the captured human form can be viewed from any angle. Other programmes allow the model to be manipulated into different postures.

The simpler Axis software modules can run on a personal computer, but more complicated programs need more powerful workstations, like those from Sun of the US. The software costs from £1,000 to £10,000.

BT cuts into UK facsimile market

AS WELL as providing primary telecommunication services, British Telecom continues to develop as a consumer equipment supplier. It has launched what it believes is the UK's cheapest facsimile terminal.

Known as the CF9, the machine is being made exclusively for BT by Tokyo Electric Company of Japan. It has a recommended retail price of just £995.

The British market for facsimile terminals has grown from 20,000 machines installed during 1985 to 96,000 last year. Installations this year will probably total between 150,000 and 180,000.

The equipment's growing popularity is the result of price reductions, transmission at phone call rates, the fact that any text or graphical material can be sent, and the advantage that a fax unit can usually double as a copier.

BT's CF9 can operate as a Group 2 or Group 3 machine. Its nominal transmission speed is 9,600 bits (1,200 characters) per second and an A4 document can be sent in 25 seconds.

CONTACTS: Seiko: UK office, 0628 770001 or in Tokyo on 563 2111. Axis Software Systems: UK, 0904 420477. British Telecom: Freephone 0800 800 800.

Ministers braced for angry benefit reforms debate

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

MINISTERS will today mount an uncompromising and unapologetic defence of the Government's highly controversial social security reforms during an emergency, three-hour debate in the House of Commons.

The debate was granted by Mr Bernard Weatherill, the Speaker, following angry scenes in the Commons yesterday during which Mrs Margaret Thatcher, the Prime Minister, came under repeated attacks from the opposition benches about the impact of the changes, which took effect on Monday.

Despite mounting and sustained opposition criticism of the new measures, together with signs of considerable unrest among backbench Tory MPs, it was being made clear last night that the Government had no plans to offer concessions to defuse the row.

The view being expressed is that the debate will provide an opportunity to underline the Government's £46bn social security budget for the current year and to restate the case for a complete overhaul of what it regards as a confusing and unfair system, so as to redirect benefit to those people in greatest need.

Even so, many Tories remain particularly concerned about the decision to cut off housing benefit to claimants who have savings of more than £8,000, a move which they believe will be seen as penalising thrift.

But in a letter yesterday to Mr Neil Kinnock, the opposition Labour Party leader, Mrs Thatcher said it was entirely fair to expect people who had accumulated savings to look to their own resources rather than to the taxpayer.

The purpose of thrift, she added, was precisely so that people could be self-dependent.

During repeated exchanges with Mr Kinnock, the Prime Minister mounted a defiant defence of the reforms.

She claimed that 5m people would gain from them in cash terms, while an additional 2m would see no change. She acknowledged that just under 1m people would see a cut in benefit.

Ministers stress, however, that there are bound to be losers in a radical shake-up of a system under which — in terms of housing benefit — two-thirds of the nation's households subsidise the remaining one-third.

In successfully calling for the emergency debate, which is likely to provoke some of the angriest scenes of the present parliament, Mr Robin Cook, Labour's social services spokesman, said it would enable MPs to challenge ministers on why they were "making the poor poorer when they have got the money to make the rich richer."

Six charged in Guinness affair remanded on bail until June 1

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

SIX men charged with a total of 92 criminal offences in connection with the Guinness takeover of Distillers appeared again at Bow Street magistrates court in London yesterday and were remanded on bail until June 1.

They were Mr Ernest Saunders, former Guinness chairman, Mr Gerald Ronson, chairman of the Heron Corporation, Sir Jack Lyons, the millionaire financier, Mr Roger Seelig, the former Morgan Grenfell corporate finance director, Lord Spens, former head of corporate finance at the Henry Ansbacher merchant bank, and Mr Anthony Parnes, a former City of London stockbroker.

Mr Saunders faces 40 charges, Mr Ronson eight, Sir Jack Lyons nine; Mr Seelig 12, Lord Spens four and Mr Parnes 19. All are on £500,000 bail.

The six arrived at and left court separately, accompanied by their lawyers. They exchanged pleasantries with journalists but refused to comment on the case.

For the 40-minute hearing, Mr Saunders, Mr Ronson, Mr Seelig and Sir Jack Lyons took up the available space in the dock, while Lord Spens and Mr Parnes sat in front of it in the well of the court.

Sir David Hopkin, the magistrate, fixed June 1, rather than July 11, for which the prosecution had asked, for the next hearing after lawyers for some of the six had expressed concern about the length of time the case was taking.

He told the six that they need not be in court on June 1, but would have to appear on July 11. He intimated that the prosecution might not be granted further remands beyond July 11.

On July 11 the six will be joined in the dock by Mr David Mayhew, a partner in Cazenove & Co, the stockbroker, who was arrested last week and charged with three offences in the Guinness affair.

Mr Victor Temple, prosecuting, said that inquiries were continuing in the US, Jersey and Switzerland. The prosecution's timetable had two purposes to assure the court that there were no undue delays on the part of the Crown and to reassure the defendants that their interests were being well catered for.

Sir David told Mr Temple that "it might be of interest to the general public" to know the proposed timetable.

Mr Temple said that "master bundles" of evidence would be served on the defence by May 27, with a court hearing following on July 11. The prosecution anticipated applying under the 1987 Criminal Justice Act for the case to be transferred to the Crown Court. Amendments to the Act enabling that to be done were expected to be in place by July.

If that went according to plan such a transfer would be made by autumn at the latest, Mr Temple said.

The transfer procedure would mean that a preliminary hearing before the trial judge at the Old Bailey would replace the traditional committal proceedings at Bow Street.

Mr Bruce Laughland, advocate for Mr Saunders, opposed a remand until July 11, asking the court to "inject some much needed urgency" into the conduct of the prosecution, which he described as "oppressive" in its effect on the defendants, particularly Mr Saunders, who was arrested last May.

The delays had been compounded by the "unique" method which the Crown had sought to adopt, Mr Laughland said.

"There appear to have been a series of paced arrests - arrests which were predicted by those with even a cursory knowledge of the background of this case many weeks before they occurred. There are at least two further arrests widely predicted. There is another person — Mr Ward — who is in the US, but extradition proceedings in respect of him have not been even yet begun. I foresee that the timetable contemplated may prove to be over-optimistic."

It was not known who all the defendants would be at trial, what charges would be in the indictments, or whether there would be one trial or a series, and, if a series, who would be involved in each.

Mr Laughland said that Mr Saunders' position was probably unique. His resources were exhausted and he was already financially ruined. His situation was different to that of his co-defendants who were businessmen in a very substantial way. Mr Saunders had been an employee. He was now unemployed and unemployable.

Both his own and his wife's health had been broken. Both had been to a clinic but had to leave after a fortnight, not for medical but for financial reasons.

"His marriage is under severe and deepening strain and his family is being rent asunder," Mr Laughland said.

Jaguar and GKN seek single union agreement

By Richard Tomkins and Philip Bassett

JAGUAR AND GKN, which are jointly setting up a new company called Venture Pressings to make car panels and chassis parts, are seeking a single-union agreement for the company's proposed new plant at Telford in Shropshire.

The companies' move comes less than a month after Ford, the US car maker, abandoned plans to build a components plant in Dundee because of opposition from its UK unions to a single-union deal for the plant with the AEU engineering union.

Competition between the unions for the Venture Pressings agreements could again provoke an inter-union row at the Trades Union Congress at national level.

But any row is unlikely to be as bitter as that which engulfed the unions over Ford Dundee because the company will not have the ability to move elsewhere, any different wage rates for the new plant would not have such a potentially wide effect and the unions will be able to compete openly for the agreement.

The new company, which is expected to employ 400, will gradually take over from Austin Rover as supplier of all body pressings for Jaguar's range of saloons and high performance sports cars. It is due to be fully operational by 1991.

At GKN Sankey, where about 1,200 are employed, there is multi-union representation.

Vauxhall reshaping helps group to biggest UK profit

BY KEVIN DONE, MOTOR INDUSTRY CORRESPONDENT

VAUXHALL, the British subsidiary of General Motors of the US, has achieved a dramatic financial turnround with a net profit of £31m in 1987 from a net loss of £61.7m the year before.

It was the biggest profit the company has recorded since it moved into the UK in the 1920s. From 1979 to 1986 the company ran up accumulated losses of £330.3m.

Last year's financial recovery in the UK was only part of the dramatic improvement in the performance of GM in the whole of Europe, with GM Europe achieving net profits of $1.25bn after seven years of accumulated losses of $2.22bn and a tiny net profit in only one year, 1982.

The upheaval inside the whole GM European organisation during the last decade has undoubtedly hit the UK and Vauxhall hardest, however.

GM has now almost completed one of the most ambitious investment programmes ever mounted in the West European motor industry aimed at taking the group into the small car market for the first time as well as revamping its production facilities across the continent and modernising its product range.

In the same period, however, its operations in the UK have been scaled back drastically. In the 1970s responsibility for car design and engineering was transferred to West Germany and GM's Adam Opel subsidiary and the integration of the UK car operations was reduced further as production of new generations of engines, transmissions and other components was located elsewhere in the world.

Vauxhall is now little more than an assembly operation within the GM Europe business. The local UK content of the Astra and Cavalier models assembled at Ellesmere Port and Luton is barely 60 per cent — lower than Nissan of Japan is beginning to achieve at its new Sunderland assembly plant in the north-east of England.

As part of the general decline of the UK as a manufacturing base for the automotive industry, GM has also largely pulled out of the commercial vehicles sector. It withdrew its Bedford trucks form the UK civilian market in 1986 before finally selling the Dunstable plant to the privately owned UK AWD group last year, and it has retained only a 60 per cent stake in its former UK van operation, which now assembles vans to designs by Isuzu, the GM Japanese affiliate and Suzuki.

Mr Paul Tosch, chairman and chief executive of Vauxhall since November last year, appeared confident yesterday that all the measures taken in recent years had finally provided Vauxhall with a more solid foundation.

Vauxhall has already had impressive sales successes to show in the UK as a series of new product launches have been well received. From the dark days at the end of the 1970s when its UK market share had dropped to about 9 per cent, it has rebuilt its presence to reach a peak of 16.6 per cent in 1985.

Daily Telegraph set for return to profitability

By Raymond Snoddy

THE DAILY TELEGRAPH, the daily newspaper which was almost bankrupt two years ago, will make substantial profits this year after a programme of severe cost-cutting.

Mr Andrew Knight, chief executive, yesterday outlined in public for the first time how the decline in circulation and display and classified advertising had been reversed since Mr Conrad Black, the Canadian newspaper publisher, took control in December 1985.

The company's 1987 results, due shortly, are expected to show a modest operational profit on a turnover of about £180m after several years of losses.

But Mr Knight said yesterday that the Telegraph franchise, unprotected by other assets in Britain, regularly needed to earn more than 15 per cent on sales and preferably 20 per cent to be truly safe.

"In 1988 all I will say is that we will make progress towards the lower end of the margins mentioned, but I would be impressed if we reach them."

Mr Knight gave no figure, but the Daily and Sunday Telegraph are expected to make pre-tax profits of more than £20m this year.

Press given warning of revenue fight

FT CONFERENCE

The Newspaper Industry

THE BRITISH national newspaper industry has less than five years to build and consolidate circulations, tie up advertising revenue and develop the advantages of colour presses, Mr Bill O'Neill, managing director of News International Newspapers, said yesterday.

He told the Financial Times Newspaper Conference in London that the growth of television channels and the number of specialised magazines would threaten newspaper advertising revenues and readership numbers.

Intensified competition would come amid a drop in the more dramatic productivity gains being enjoyed by British newspapers since Mr Rupert Murdoch transferred his national titles to a high technology plant at Wapping, in east London.

Sooner or later value added tax would be imposed on newspapers, hitting circulation without benefiting publishers.

Mr Richard McClean, deputy chief executive of the Financial Times, opening the conference, said that opportunities and threats facing the newspaper industry had never been greater. No-one should be surprised that the newspaper industry was now facing increasing competition.

Mr Lee Huebner, publisher of the International Herald Tribune,said that a new an influential audience had emerged in the world of international media.

" These are people who think and talk and act and work with the same frame of reference, the same international outlook."

To reach such an audience who are members of a true international community the IHT was already printing in 10 different sites around the world and circulation had risen by 50 per cent since 1980.

"Our dream is someday to be available on the day of publication in every major city in the world," said Mr Huebner.

International newspaper publishers had, however, to help readers cope with a glut of information, seize their imagination and evolve a new definition of news — one that put more emphasis on background and context and less on the abnormal.

Mr Ko Morita, president and chief executive of The Nihon Keizai Shimbun told how apart from running the largest integrated economic newspaper in the world with a circulation of 2.7m his company was involved in everything from books, magazines, and newsletters to radio and television and was also exploring aggressively the new media.

There were no plans to purchase a Western newspaper and he doubted whether a Japanese company could successfully run a foreign newspaper.

Mr Ralph Ingersoll, the American newspaper owner who last year took a majority stake in the *Birmingham Post and Mail* and the Coventry Evening Telegraph criticised the quality of newspaper research in the UK.

"There is virtually no quality research available on regional newspaper markets — and quite frankly *precious little on the* national. This, of course, will require significant capital investment to remedy. We are prepared to make that investment," Mr Ingersoll said.

National newspapers had been getting away with murder on regional market readership and would continue to unless the facts on local readership were more compellingly presented to advertisers.

Mr Andreas Whittam Smith, editor and chief executive of The Independent, said he thought the new quality daily, now selling 380,000, was slightly too masculine a paper because 67 per cent of its readers were male. He wanted more women readers and had decided that the only way to achieve this would be by employing more women journalists.

The Independent's founder told how the greatest challenge in launching a new newspaper into the most conservative of all consumer product markets had been to reassure and innovate at the same time.

The Government wants businesses to invest more than just money in urban renewal programmes, reports Hazel Duffy

A private sector recipe to break inner cities' fast

OVER COFFEE and croissants this morning in Newcastle's Eldon Square shopping and recreation centre, Mr Kenneth Clarke, Department of Trade and Industry minister responsible for inner cities, will try and urge a group of influential north eastern businessmen to become latter-day city fathers.

The breakfast will be the first of a nationwide series during which the minister will put the Government's pitch for its inner city development plans. He will tell those in business, big and small, it is up to them to turn run down inner cities into fit places to live and work.

In Newcastle, Mr Clarke and Mr John Cope, the employment minister, will explain what the Government is doing to get the ball rolling. Sitting alongside them will be Mr John Hall, developer of the huge and recently completed MetroCentre shopping and recreation complex in Gateshead, south of Newcastle.

The Government must win more private sector backing if its inner cities policy is to work. This means private sector investment, training and job creation for locals, and generally more private sector responsibility for areas which have been devastated by departing industries.

Mr Clarke is fairly confident that the campaign will succeed. "I think we can coax businessmen into taking this responsibility because it is in their commercial interests to do so. We have tried already, but the main thing to do this year is to have yet another go on a bigger scale. We have to give the industrialist the chance to see it as something more than an invitation to join a charitable activity."

His appeal will be directed towards local bank managers, plant managers, chief executives and small businesses. His goal is to build a force of businessmen who work and, rather like the city fathers of the Victorian era, take pride in their cities. The difference would be that they would work alongside the local authorities instead of within them as elected leaders.

The minister admits to glancing enviously over the Atlantic where executives play a bigger role in improving their cities. "They come together to hire consultants, to push a development plan to the city government, commit funds and resources, win the support of the city government. They are also heavily involved in getting local residents to benefit, organising recruitment and training. They work with cities. Cities are receptive to it."

The US model, though, leaves aloft the question of the role of local authorities in inner city policy. Like most of Mrs Margaret Thatcher's cabinet, Mr Clarke is no lover of predominantly Labour Party led city authorities. But he believes that local authority co-operation is possible in some places. Birmingham, Britain's second city in the midlands, is an example. Here the pragmatic council convinced the Government that it could work with the private sector and thereby avoided having an urban development corporation imposed upon it. Such corporations, an invention of the Thatcher government, act independently of the local authorities in trying to stimulate private sector investment with seedcorn public money.

Mr Clarke has is by repute slightly more to the left of the Thatcher line, or "wet", on social matters and drier on economics. His caring does not extend, however, to an emotional involvement with people of Moss-side, in Manchester, and Middlesbrough in the way that Mr Michael Heseltine became drawn to the people of Merseyside.

Mr Clarke is reluctant to accept that there is a permanent underclass of poor and underprivileged: "It is good jargon from the sociologists." Nor does he think, however, that the poor must stop taking social security benefits and move to where jobs are available.

"They are people who do not think they are ever going to get ordinary employment for one reason or another. Some even see it as a satisfactory way of life, muddling along on the black economy."

But he is equally convinced that more money from government is not the answer for the inner cities. It is critical, he says, that the private sector contributes – not just in money but also in a concomitant assumption of responsibility.

Kenneth Clarke: an envious glance at the US

Upsurge in demand for forgings led by vehicle industry

BY NICK GARNETT

OUTPUT FROM the UK's steel and aluminium forgings industry surged by 28 per cent last year, one of the biggest production jumps on record.

The increase was attributed chiefly to much improved demand from the vehicles industry, which takes 60 per cent of forgings.

The British Forging Industry Association said deliveries to the car industry rose by 30 per cent and to the commercial vehicle sector by 18 per cent.

The increase in tonnage absorbed by tractor makers in the UK, one of the world's leading tractor producers, rose by 33 per cent.

This upsurge in demand though also reflects the serious decline in the British forging industry during previous years.

Output last year from member companies of the association which account for 90 per cent of UK forging production was 222,850 tonnes compared with 178,000 tonnes in 1986. The 1986 figure was the lowest since the association started collecting statistics in the 1960s.

"No other European country has seen such rapid or dramatic improvement in the activity of its forging industry but on the other hand, none of them had fallen quite so far behind in 1984-86," the association said in its annual report yesterday.

This says that the UK's 60 or so forging companies, most of which are in and around Sheffield and the Midlands, now have the "resourcefulness, management skills and sheer tenacity to adapt to changing fortunes."

The association gave a warning, however, that the steep rate of recovery in demand which started in the summer of last year would probably not be sustained and that there were still many deep-seated problems within British manufacturing as a whole.

Investment in research and development, training and fixed capital was too low. The association said that average productivity and profitability among its member companies' customers still lagged behind Britain's European competitors. "Britain remains a relatively low pay, low productivity and low profit economy," it said.

Danish group will offer fixed interest home loans

BY DAVID BARCHARD

A NEW method of mortgage financing for commercial and domestic property purchases has been introduced to the UK by Nykredit, a Danish mortgage corporation which announced the launch of its UK operation yesterday.

Under Nykredit's mortgage system, adapted from the one in general use in Denmark, property buyers will receive their loans for the purchase through five-year fixed interest rate bonds raised in Sterling Eurobonds on the Luxembourg bond market.

The loans will be linked to the property rather than the borrower and so will be transferable to a new owner when the building is sold.

However, mortgages will be available only on a fixed interest rate basis. Yesterday Nykredit was offering a rate of 10.75 per cent but Mr Thor Kleif, its London manager, said the rate on offer would vary from day to day.

Purchasers will pay back loans monthly, as with a mortgage, but Nykredit claims that its method of funding drastically reduces paperwork.

Initially Nykredit, the largest financial institution in Denmark with assets of £23bn, will restrict its UK lending to new developments or buildings less than two years old. It is targeting commercial property and residential schemes of at least £1m.

Taste for home cooking

BY DAVID CHURCHILL

TRADITIONAL British cooking, such as meat pies, steak and chips, and roast beef and vegetables, is still the most popular type of food sought when people eat out according to a new survey of eating habits.

Eight out of every 10 of the 800 hotels, restaurants, public houses, clubs, and institutional caterers such as hospitals included in the survey reported that home cooking was way ahead in popularity of French and Italian cuisine.

Moreover, more than a third of those surveyed said that customers were increasing their consumption of traditional puddings and sweets.

The survey's findings suggest that in spite of the growth of new trendy designer restaurants and pubs, most people who eat out are still very conservative in their eating habits.

"It would appear that 'health food' has not, as yet, become a popular type of dish," says the survey.

But it points out that "establishments in which the customer is more health conscious are finding that people are turning to fresh fruit salad and cheeses as alternatives to puddings and sweets."

The survey was carried out by the Canderel sweetener company in conjunction with Catering Update magazine.

UK NEWS

Peter Marsh explains why the pharmacutical R&D spree is not typically British

Glaxo pays to stay in the race

IS BRITAIN a good or bad place for conducting top-level pharmaceutical research and development? The question arises as a result of two apparently contradictory pieces of evidence which surfaced yesterday.

On one hand, the House of Lords science and technology committee warned on Monday that multinational drug companies may be scared away from siting their research facilities in Britain due to the problems in financing UK academics in basic medical research.

This message was, however, swiftly followed by the announcement that Glaxo, Britain's biggest pharmaceuticals *company*, is to spend £500m over the next five years on a sparkling new research campus in Stevenage, Hertfordshire.

As part of its scheme, Glaxo plans to raise *its R&D staff based* in Britain from 2,800 to 3,500 by the time the Stevenage campus is finished in the early 1990s.

About 2,000 of these people will be housed on the new 70-acre site, which is to feature a *group* of laboratories and pilot plants in what Glaxo hopes will be an attractively landscaped setting.

The remainder will be at the company's other British R&D centre at Ware *in Hertfordshire*. Glaxo's biggest existing research site at Greenford in Middlesex, is gradually to be shut down and the staff transferred either to Stevenage or Ware.

Glaxo's announcement, representing the biggest single splurge of private R&D investment in Britain for many years, hardly fits in with the gloomy warnings from the House of Lords' committee.

> "Britain may be shooting itself in the foot — but that's not necessarily going to hurt a company like Glaxo."

On closer examination, however, the two messages are by no means completely at odds. To begin with, there is no doubt that the UK-based pharmaceutical companies are worried by the poor morale and shortages of funds affecting Britain's medical researchers in the academic community.

These problems, the industry says, are making it difficult for universities and other educational establishments to attract high quality medical students and researchers.

As a result, the pharmaceutical industry, which spends about £700m a year on its own research and development and employs some 15,000 *staff* in this area, is having trouble recruiting the trained men and women it has come to rely on from the universities.

The difficulties are also affecting US-owned Merck Sharp and Dohme, the world's biggest drug company, according to Dr Leslie Iversen, director of the company's neuroscience research centre in Harlow, Essex.

Dr Iverson is having problems recruiting the extra 90 people he needs by the early 1990s to bring his laboratory, established in 1983, up to full strength. "If my company was thinking now of setting up a research *facility* in Britain we probably wouldn't do it," he says.

Another side to the story, in Glaxo's case, is that it had good reasons for choosing Britain to set up its new research centre. It needed a site close to its existing laboratories at *Greenford and* Ware to make transfer of existing staff reasonably easy.

The company did not contemplate putting the new campus anywhere other than in the area immediately north of London near these facilities, according to Dr Richard Sykes, Glaxo's director of research.

Another point which must have influenced Glaxo — and which acts as a general counterweight to the problems of recruiting people from the UK academic community — is that it is far cheaper to run a research base in Britain than elsewhere in many *other developed* nations, mainly because UK staff are relatively poorly paid. A scientist in a drug laboratory in Britain will commonly earn half of what he or she would be paid in the US.

Added to these considerations is that Glaxo has the financial resources to recruit to its new UK facilities people from all over the world, who need not necessarily have come through the UK academic system.

The company, which recently announced a pre-tax profit of £397m for the first half of the 1987-88 year, is by no means short of money to pay above-average salaries to top researchers.

Dr Sykes believes that many of the extra 700 people he will be seeking for his UK research facilities are likely to come from aboard. "We will be looking for the best," he says.

Mr Ian Broadhurst, a pharmaceutical industry analyst at Warburg Securities, a London stockbroker, echoes the point. Regarding the arguments *over* the lack of funding for basic medical research, he says that "Britain may be shooting itself in the foot — but that's not necessarily going to hurt a company like *Glaxo*."

Above everything else is Glaxo's feeling, which it shares with many of the other leaders in the world's pharmaceutical industry, that it needs to keep pouring resources into research to continue its success of recent years. Largely on the back of revenue from Zantac, Glaxo's smash-hit anti-ulcer medication which has become the world's biggest selling drug, the company has risen from being an also-ran in the healthcare industry in the 1970s to the world's sixth biggest drugs concern.

But the company believes that the pace of the research effort must not let up. ""We have to plan for the future," says Dr Sykes. "If we don't we will be in trouble."

Former Avana chief joins Hazlewood foods group

BY NIKKI TAIT

DR JOHN RANDALL, the former chairman and chief executive of Welsh food group, Avana, is returning to the corporate scene as an executive director of Hazlewood Foods, the fast-growing food manufacturing group.

Avana, which became a glamour stock in the late 1970s under Dr Randall's highly individual leadership, was taken over by Ranks Hovis McDougall after a fiercely fought £281m takeover bid last April. Dr Randall stayed on for a short time after the bid, but always made clear that he would not be happy as "a peripheral man".

Subsequently, Dr Randall attempted to buy Dragonparc back from RHM - a Merthyr Tydfil site and factory where Avana had planned to create a huge multi-product food factory.

Earlier this year, however, proposals which would have involved the sale of the site but allowed RHM to retain a small minority stake in the project were rejected by the food and bakeries group. "We believe it is worth a lot more than the prices currently bandied around," commented RHM yesterday.

Dr Randall, 58, said yesterday that his precise role at Hazlewood had yet to be defined.

P&O threatens dismissal over Numast work veto

BY JIMMY BURNS, LABOUR STAFF

P&O European Ferries, which has been in dispute with the National Union of Seamen for 11 weeks, appeared last night to be heading for a confrontation involving Numast, the moderate officers' union.

P&O has written to 600 Dover-based members of the union warning that they will be summarily dismissed and forfeit their right to voluntary redundancy if they refuse to work with non-NUS crews.

Numast has told its members to ignore the warning and said it was prepared to defend their rights through the courts if the company carried out its threats.

Mr Graeme Dunlop, the company's managing director said in a letter to the union: "At some date, yet to be determined, we will recommence trading with or without the ratings (NUS seamen) currently in dispute. At that time we require that all officers will comply in all respects with their employment obligations."

The warning appears to indicate that the company is once again considering as an option the employment of non-unionised crews, having only recently ruled it out. Such a move would be unprecedented among the UK cross-channel operators.

Black Monday's effects on bankers' pay

BY MICHAEL DIXON

WHAT has happened to pay in City of London banking since Black Monday?

The question has been put to the Jobs column multitudinous times lately, and not only by people with a direct interest in the topic. The same inquiry has been made by several readers in other kinds of work who, having long had their pay dwarfed by the famous square mile's levels, are now wondering whether – if not hoping that – City bank staff are being cut down to size.

Some of them, alas, certainly have been. Estimates of the number who have lost their jobs since October 19 vary from about 2,500 to 4,000 or even more. And while those expelled from the more junior ranks have evidently been finding it easier to get back in than the pessimists had feared, re-entry for many senior victims is proving tough.

But what has happened to the rewards of the majority who stayed employed is a question that is far easier to ask than to answer. Although the past few days have seen the completion of two surveys of the pay of square mile bank staff, clear patterns are rare.

One of the few has been noted by the more extensive of the two surveys, carried out by Joe Clark of the Wyatt consultancy for the London Bankers' Personnel Management group. The study is made at the start of each year, and covers total money rewards – bonuses as well as salaries.

While the detailed findings are available only to the group's 350 member companies, Mr Clark is able to disclose the broad trends.

He says that in the higher ranks, as distinct from clerical grades, most types of staff received increases above inflation in their total money rewards. In commercial banking jobs, and in such work as corporate finance and portfolio management, the average rises were 4.8 per cent.

The corresponding increase among administrative people like financial controllers and operations managers was 8 per cent. They in turn were upstaged by higher-rankers in foreign exchange and treasury work with an average rise of no less than 15.7 per cent.

Main blow

By contrast, the average total cash pay of bankers in capital markets activities such as bonds, swaps and equities-trading fell from the 1987 level by 9.2 per cent. But when Joe Clark separated their total rewards into salaries and bonuses, he found that the salary element had gone *up* by 5.5 per cent.

"So, where people who're still employed are concerned, it looks as though the main blow of Black Monday has been taken by the bonuses of capital markets staff," he says. "And the big rise for *foreign-exchange* and *treasury* operators suggests that they've been the ones banks have counted on to dig them out of the mire, which more often than not they've probably done.

"While that looks to be the general rule, though, there'll be a lot of exceptions to it. There always are in the City. A good many banks, for instance, never took to handing out big bonuses. They've carried on rewarding their bond dealers and so on *largely by salary. And how much* they pay them can depend a lot on how the employer sees the particular activity.

"If it's seen as a sideline of the business, the salary will be only enough to get someone with experience in the field. But if it's viewed as mainstream work, banks will go high enough to attract the best talent. Even now some fairly spectacular salaries are being offered occasionally for capital markets staff."

That last observation is endorsed by the table above drawn from the second recent survey, which is made by the City recruitment consultancy Jonathan Wren. Although the study covers the period from September to late February, it mainly reflects movements after Black Monday struck.

The figures – which refer solely to salaries, excluding bonuses of any kind – are of two sorts. One is "applicants' salaries" *which bankers applying for jobs* through the consultancy said they were being paid at the time.

The other sort is the "placement salaries" successful applicants actually obtained on being placed in their new post. The table shows the 20 banking jobs in which Wren's candidates achieved the biggest average placement salary during the period. It also gives the lowest and the highest figures recorded by the consultancy for those 20 jobs. In each case, the applicants' salaries are compared with the placement salaries.

(Anyone wanting the full survey should contact Richard Meredith of Wren at 1 New Street, London EC2M 4TP; tel 01-623 1266, fax 01-626 5258.)

As can be seen, job-changing paid pretty handsomely for the middle to top range of fund managers in overseas and United Kingdom equities. The placement salaries gained by the upper tiers of senior bonds marketing people were better than the applicants' salary levels too. But for the rest, the position was mostly the other way round.

All the same, I doubt that people working at similar levels of responsibility in other sectors in the UK will see the surveys as showing that square mile bank staff have been cut down to size. The lowest average salary in the table – the £31,654 applicants' figure for the senior business analysts in computer systems departments – is still almost certainly above the average even for managers directly below board level in Britain as a whole.

INDICATORS OF CITY OF LONDON BANKING SALARIES OVER PAST SIX MONTHS

	LOWEST		AVERAGE		HIGHEST	
TYPE OF STAFF	Applicants' salaries £	Placement salaries £	Applicants' salaries £	Placement salaries £	Applicants' salaries £	Placement salaries £
Fund managers, overseas equities	27,500	27,000	35,400	78,250	100,000	150,000
Senior bonds marketing executives	35,000	35,000	60,468	72,500	79,500	110,000
Senior corporate finance executives	60,000	62,000	91,650	68,334	115,000	76,500
Bonds origination managers	65,000	62,500	82,408	66,333	95,000	93,000
Corporate finance specialists	62,500	60,000	72,442	62,414	125,000	75,000
Bonds syndications/swaps executives	25,000	25,000	57,500	47,462	75,000	85,000
Fund managers, UK equities	20,000	17,000	29,588	47,250	100,000	150,000
Financial controllers	42,000	40,000	46,535	45,379	50,000	47,500
Senior lending officers	35,000	37,500	38,644	39,842	40,000	45,000
Bonds marketing/origination executives	25,000	35,000	40,500	38,186	60,000	50,000
Bonds dealers	28,000	27,500	41,250	36,375	62,500	58,000
Bonds syndication managers	37,500	35,000	55,875	35,250	72,500	42,000
Project finance executives	30,000	30,000	34,410	34,676	40,000	42,500
Chief accountants	28,000	30,000	33,014	34,583	42,500	40,800
Senior business analysts (systems)	25,000	32,500	31,654	34,550	42,500	45,000
Bonds sales strategists	30,000	27,500	58,416	34,000	92,500	65,000
Fund managers, fixed interest	25,000	21,500	33,857	32,954	60,000	40,000
Euronotes marketing executives	35,000	25,000	69,500	32,866	90,000	55,000
Data processing managers	25,000	25,000	36,972	32,500	45,000	40,000
Credit department managers	32,500	30,000	36,142	32,500	42,500	35,000

GROUP COMPANY SECRETARY/ PROPERTY EXECUTIVE

Reading c.£35,000 + car

Adwest is a profitable £100m turnover group with some twenty subsidiaries – primarily engineering businesses supplying the automotive, electrical and defence sectors. The group also develops and manages a growing portfolio of property and development land.

Impending retirement has created this opportunity for a commercially oriented chartered secretary. In addition to the normal range of secretarial responsibilities, the appointee will manage a large industrial/commercial property estate and day-to-day relations with Bryant Homes, Adwest's partner in a residential property development business. As a member of the senior team, reporting to the Group Managing Director, the Secretary will contribute to broader strategic decisions including involvement in divestments, acquisitions and continuing development of the land/property portfolio, in particular.

Candidates must be professionally qualified and used to a multi-company organisation. Relevant property experience will be highly valued. A commercially aware and positive personality will find this role an attractive and demanding challenge. Additional benefits include share options and medical insurance.

To apply, please send full career details in confidence, and quoting ref A6033/2 to Mike Smith.

KPMG Peat Marwick McLintock

Abbots House, Abbey Street, Reading RG1 3BD.

INSTITUTIONAL SALES

'bull in a bear market?'

Salary by Negotiation

Full Benefits

Our clients are a leading firm of UK stockbrokers and a part of one of the largest and best known European banking groups. They wish to expand their institutional sales team by appointing an outstanding sales specialist who can also contribute to front-line management.

To qualify for this challenging career move you will have already built a substantial UK institutional client base possibly with some exposure to Europe. You will expect a demanding yet rewarding working environment, high quality research products and long term commitment to the growth of the equity function.

In the first instance, contact Mark Lockett quoting ref 641/FT. All responses will be treated in strictest confidence.

MARK LOCKETT RECRUITMENT

MLR,
1 New Bond Street,
London W1Y 9PE
01 – 493 7232

CORPORATE BANKING

Marketing Officer UK Corporates

Excellent Package

A major international bank is seeking an additional corporate banker to join its expanding department servicing the needs of UK middle market corporate clients. The bank already has a strong presence in the UK corporate sector and is looking to develop its activities in this exciting market place. You will be marketing the bank's products to UK companies below the Times Top 300.

This will entail visiting target corporates, preparing proposals, promoting them at the Credit Committee and then following transactions through to completion. In addition you will also be involved in developing marketing strategy, working on product development and enhancing business with existing clients.

Ideally you will be a qualified banker in your mid *20's* to early *30's*, with at least 2 years' experience and extensive contacts in the UK middle market. You may also be educated to degree or business school standard.

Personal qualities should include a positive outgoing personality and the desire and ability to work in a high profile role within a small, highly motivated team.

If you feel you have the will to succeed in this demanding but rewarding post please contact:

Niall Macnaughton, the retained consultant, on 01-404 5751 or write to him in strictest confidence at 39-41 Parker Street, London WC2B 5LH.

MP

Michael Page City

International Recruitment Consultants

London Paris Amsterdam Brussels Sydney

A member of Addison Consultancy Group PLC

Compliance Officer

To £40,000

Our client, a major European financial institution currently seeks to appoint a Compliance Officer for its London office. Reporting to the Compliance Director the successful applicant will have direct day-to-day responsibility for developing and maintaining procedures, to monitor the activities of the bank's operations. These activities include securities, merchant banking, and fund management.

Candidates should have direct relevant experience gained within either a compliance function or related field. In addition they should be professionally qualified as a lawyer or accountant. This role will appeal to those looking for increased responsibility and autonomy.

Please contact Paul Wilson or Penny Bramah in confidence on 01-404 5751 or write to them at Michael Page City,
39-41 Parker Street,
London WC2B 5LH.

MP

Michael Page City

International Recruitment Consultants

London Paris Amsterdam Brussels Sydney

CONTRIBUTE TO OUR EXPANSION AND TO YOUR SUCCESS

Boston Safe Deposit and Trust Company is one of the top 20 banks in the U.S. with balance sheet assets in excess of $140 billion worldwide.

In the U.K., we are already established in a number of key financial sector areas with an office in the City. We have an aggressive plan to be offering a full range of corporate and individual banking services within the next three years.

Stock Lending Manager

To add to our existing global custody operation in London we require an experienced individual to establish and manage a global stock lending department. You should have at least five years' experience in a global lending environment and be fully conversant with settlement procedures in the U.K. and foreign securities markets. Sensitivity towards credit exposure and controls is essential.

An excellent salary plus an executive car will be offered to the right person.

Deposit Sales

We require an individual to promote the liability products of BSDT such as Time Deposits and CD's, in both Eurodollars and Sterling, to institutional investors such as banks and unit trusts.

Selling experience in the institutional world is necessary and knowledge of liability products is preferred. Also desirable is a good knowledge of the workings of the City.

An extremely competitive salary will be offered.

Both positions come with first-class banking benefits including non-contributory pension scheme, reduced rate mortgage and private health cover.

Please write enclosing latest CV to Valerie Borley, Boston Safe Deposit and Trust Company, Three Quays, Tower Hill, London EC3R 6DS (quoting Ref: 062).

THE BOSTON COMPANY

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An American Express Company
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Economist

Corporate Planning

This British-owned corporation has worldwide interests in technology, consumer, natural resource and energy-based industries. Its Corporate Planning Unit operates in a key central support role to the main board. An economist's tasks would include forecasting the economic and business environment, country risk analysis, assessment of business development opportunities and ad hoc studies of economic and other issues of importance to the company.

Candidates, ideally in their 20's or early 30's, should have a post-graduate qualification in economics and relevant experience. A successful track record with good written and verbal skills is essential.

A salary fully competitive with current market values will be offered with an excellent benefits package including non-contributory pension and assistance with relocation expenses where appropriate.

Career development prospects are excellent either within an economics or planning function or in other parts of the Corporation. Opportunities are likely to occur both within the UK and internationally.

Please write with full details. These will be forwarded direct to our client. List separately any companies to which your application should not be forwarded. N. Holker, ref. NH/B/2.

MSL Advertising

MSL Advertising,
32 Aybrook Street, London W1M 3JL.

M & A Specialist

Highly competitive salary and benefits package

PHILLIPS & DREW

Phillips & Drew is one of the City's leading financial institutions, providing a wide range of financial services to its clients. Our M & A Group is part of an international network within UBS, one of the world's largest banking groups.

Our expanding business requirements have created this opportunity for an M & A specialist with at least 2 years' M & A experience gained in a merchant bank. Reporting to the head of the team, you will be responsible for advising on acquisition and divestment activities and will play an influential role in the development of new business.

The remuneration package includes a highly competitive base salary as well as bonus, mortgage subsidy and other City benefits.

If you are interested please write, enclosing a comprehensive cv to:-

Isabel Doverty,
Recruitment and Development Manager,
Phillips & Drew Limited,
120 Moorgate, London EC2M 6XP
Telephone 01-628 4444 Ext. 3132

A MEMBER OF THE UNION BANK OF SWITZERLAND GROUP

Shepherd Little & Associates Ltd

Banking Recruitment Consultants

HEAD OF DOCUMENTATION/ TRANSACTION MANAGEMENT

Circa £40,000 + Car

MAJOR BOND ISSUING HOUSE

This very active issuing house wishes to make an appointment at Senior Manager/Associate Director level. Responsibilities will cover the vetting and finalising of documentation relating to Eurobond/Euro-equity issues, many of which are lead managed.

Candidates for this position will need to have experience of this aspect of transaction management, gained from within the Corporate Finance area of another market leader or perhaps a legal firm that specialises in this field.

A knowledge of German, at least business standard, is essential.

DEALER SALES

Other assignments that we are currently working on, all paying around £30,000 plus good bonuses, are:

CORPORATE DEALER
SPOT MAJOR CURRENCIES DEALER
MONEY MARKET SALES
SWAPS DEALER

Please contact David Little or Brenda Shepherd

Ridgway House 41/42 King William Street London EC4R 9EN
Telephone 01-626 1161

MARKETING MANAGER

Corporate Banking, Europe

Scotiabank, a major Canadian bank seeks an experienced Manager to lead, co-ordinate and enhance its existing presence in the Spanish and Portuguese Corporate Markets.

The appointee will be responsible for marketing the bank's full range of financial services, including Corporate Mergers and Acquisitions, Project Finance, and Asset Based Lending. Based in London, the successful candidate will be capable of developing a broad cross-section of client contacts, whilst managing a small credit team.

Candidates must be both literate and numerate, within the age range of 26-42, fluent in Spanish or Portuguese languages and will have extensive experience of and contacts in the respective market place.

Salary is negotiable with an excellent benefit package.

Full personal and career details should be forwarded to Mrs Gillian Harris, Manager, Personnel, The Bank of Nova Scotia, Scotia House, 33 Finsbury Square, London EC2A 1BB.

Scotiabank

TREASURY MANAGER

Major International Bank - Jersey

Our Client is a substantial and expanding International bank with a successful operation in the Channel Islands.

The Jersey subsidiary which maintains a high profile in the foreign exchange and money markets currently seeks to recruit a senior foreign exchange dealer to take responsibility for the management and further development of its treasury operations.

This senior appointment calls for a creative and mature 'hands on' manager, ideally aged 38-45 with a professional trading background which includes proven expertise in the foreign exchange and money markets together with a full knowledge of the newer financial instruments.

This challenging opportunity offers a competitive salary in a low-tax environment with an attractive benefits package including relocation expenses, Company car, BUPA and bonus plan. Relevant housing consents will be obtained and financial assistance for housing provided.

Contact Norman Philpot in confidence on 01-248 3812

NPA Management Services Ltd

12 Well Court · London EC4M 9DN · Telephone 01-248 3812 3 4 5

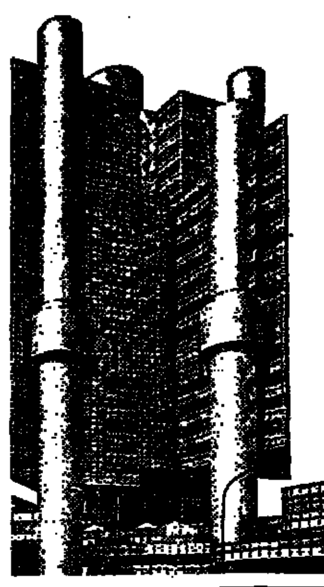
Management Consultants · Executive Search

Use your head. Get ahead with a bank where heads count.

We are one of the leading addresses in the security business and want to expand our market position.

For our head office in Munich we are looking for experienced people (fluent in at least English and German) as

International Stock Analysts



Along with the preparation of international strategic portfolios your main area of work will be the production of detailed stock analyses in the form of recommendations.

Minimum requirements: In addition to a degree in economics you should possess several years of relevant professional experience and be able to express yourself in fluent German.

Please foward your complete application to Bayerische Hypotheken- und Wechselbank AG, Abteilung P/MB 2.3, Arabellastr. 12, 8000 München 81. For detailed information please contact Dr. Peter Fischer, Tel.-Nr.: 0 10 49 89/23 66-2102 or Mr. Johann Goldbrunner, Tel.-Nr.: 0 10 49 89/23 66 87 40.

HYPO BANK

Bayerische Hypotheken- und Wechsel-Bank Aktiengesellschaft

FIXED INCOME SECURITIES SALES

NEW YORK AND LONDON

We are a recognized Primary Dealer in U.S. government securities, headquartered in New York City with sales offices across the U.S. and abroad. We are seeking experienced salespersons for our International Sales Groups in New York and London.

Senior International Salesperson - New York

Candidates for this position must have a minimum of four years experience dealing with central banks and large institutional accounts in U.S. government/agency securities.

Salesperson - London

Candidates must have a minimum of two years experience in U.S. government/agency securities sales.

Send us your CV, in confidence, including your current base salary, 1987 bonus and/or commissions.

We offer an excellent total compensation package, including comprehensive medical, dental and life insurance benefits.

Write Box A0847, Financial Times, 10 Cannon Street, London EC4P 4BY

International Fund Management

US/JAPAN **Up to £40,000 + car**

Our client, a leading in-house pension fund with assets under management in excess of £4.5bn, is looking to fill two key appointments within its investment division. Their aim is to recruit experienced fund management professionals to join a small and successful team.

US Equities:

With sole responsibility for funds of c£200m, the successful candidate will have a minimum of 3 years experience of North American markets.

Far Eastern Equities:

Funds currently invested in the Far East total c£300m, biased heavily towards Japan. Candidates will have first-class experience of Japanese markets, although knowledge of other Far Eastern markets would be an added benefit.

Candidates will probably be aged between 27-35 with a good track record in the relevant markets. Ability to integrate within a team environment is a prerequisite for these positions.

If you match these criteria, contact Charles Ritchie on 01-404 5751 (evenings 01-673 6727) or write enclosing a full cv to Michael Page City, 39-41 Parker Street, London WC2B 5LH.

Michael Page City

International Recruitment Consultants

London Paris Amsterdam Brussels Sydney

Underwriting & Development Manager

PERFORMANCE BONDS AND GUARANTEES

City or Provinces **£ Highly negotiable**

This high profile role will appeal to ambitious and self-motivated graduates, with a background in insurance or financial services, who now wish to make a career move with promotional prospects. The key challenge of this new senior operational position is the development and implementation of an effective marketing strategy. Our international client specialises in underwriting suretyship insurance business throughout the UK construction industry and related sectors.

Working closely with the Chief Executive, emphasis will be on both the expansion of existing quality business and identification of new areas of interest. At the same time, candidates aged 33-40 will be expected to ensure the highest standard of underwriting through establishing effective credit assessment of potential clients. All these aspects demand a sound working knowledge of insurance, risk assessment, banking and the ability to analyse company balance sheets. A related professional qualification and some linguistic ability would be useful. Essential personal qualities include commercial awareness, drive and excellent communication skills.

Salary will not be a limiting factor for the highest calibre candidates. The accompanying remuneration package will include generous performance bonus, fully expensed car, non-contributory pension scheme, BUPA/PHI and mortgage subsidy. The office base for this position is flexible dependent upon individual circumstances, but relocation expenses are available where appropriate.

Interested applicants (male or female) should send a detailed CV or telephone for an application form on 0625 533364 (24 hours) quoting reference 1363/FT.

Wickland Westcott & Partners

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Search and Selection; Management Development

Springfield House, Water Lane, Wilmslow, Cheshire SK9 5QS. Telephone: (0625) 532446.

Corporate Finance Acquisition Specialists

Stockbroking **City** **Neg. & Substantial + Stock Options**

Owing to continued expansion, our client, a quoted financial group, seeks two additional high-calibre individuals to join its team, reporting directly to the Chairman:

Corporate Acquisitions

You are likely to have gained your experience in the Corporate Finance Department of an acquisitive-minded group or in the respective department of a stockbroking firm or merchant bank. Alternatively, you may have relevant experience gained in either fund management or in corporate treasury.

You should be able to analyse/evaluate companies and their management through the necessary research and to promptly recommend sound action for the Group's Investment Department either for its own account or in conjunction with other parties.

Stockbroker

You should have demonstrated institutional sales experience as a senior member of a stockbroking firm, possess substantial contacts and the ability to generate business.

You will have a sound analytical mind and the capacity to develop, organise and lead a small Institutional Sales Department.

You should be able to assist in corporate acquisitions and underwriting issues.

If you feel that your skills and background meet the challenge of these requirements, you *should write, enclosing a recent career resumé and an indication of your current* remuneration, to Harry Chryssaphes, Director at FMS, 14 Cork Street, London W1X 1PF

F.M S

Search and Selection Specialists for *Financial Management*

The LAS Group

Established in 1838

INVESTMENT DIRECTOR

OVERSEAS EQUITIES

LAS Investment Management Limited is seeking an Investment professional to be responsible for part of their Overseas Portfolio.

The successful candidate will be a member of the small executive team, managing funds, in the life assurance, pensions and Unit Trust areas, of approximately £750m.

Candidates are likely to be aged 30-40, with a minimum of 7 years' Fund Management experience. Knowledge of more than one Equity Market and good presentational and marketing skills are desirable.

LAS are committed to expand their Fund Management operation, and therefore require a dynamic, highly motivated individual who would be capable of progressing to the Board of the Investment Company within a short period of time.

An attractive compensation package is offered, consisting of base salary, bonus, motor vehicle, mortgage subsidy, non-contributory pension scheme, life cover and relocation expenses, where necessary.

The position is based in Edinburgh.

Please telephone or write to our advisors,

FLETCHER JONES LTD

EXECUTIVE RECRUITMENT

John G Osborne Fletcher Jones Ltd 9 South Charlotte Street EDINBURGH EH2 4AS Tel: 031 226 5709

Jane L French Fletcher Jones Ltd 4A William Street Knightsbridge LONDON SW1X 9HL Tel: 01 245 6377

CORPORATE FINANCE

Private Equity Placement

We are retained by a major international merchant bank to assist in the expansion of its corporate finance department. As a global player, the institution has a substantial client base which provides an abundant source of potential investment opportunities.

Whilst continuing to seek institutional investors in venture capital, the bank is now keen to expand its direct equity placement capability for private companies. We therefore seek an individual whose prime responsibilities will be to maintain and develop even further the bank's significant venture capital resources, whilst simultaneously providing an exit route by private equity placements. Reporting directly to the Managing Director of the bank and working closely with the small corporate finance team, this senior executive will undertake the evaluation, negotiation and structuring of both venture and private equity deals for placement with institutional investors.

Applications are invited from energetic, self-motivated, articulate and ambitious executives, possibly chartered accountants or solicitors, with at least 7 years' relevant experience, probably gained within either an international or merchant bank or a stockbroker. Candidates will be expected to demonstrate sound analytical, negotiating and marketing skills supported by evidence of significant direct deal activity and numerous investor base contacts.

The remuneration package is negotiable but will comprise a competitive base salary with a significant performance linked bonus together with an attractive benefits package.

Interested individuals should, in the first instance, either telephone or send their curriculum vitae in strict confidence to **Roy Webb, Managing Director.**

INTERNATIONAL SEARCH AND SELECTION CONSULTANTS

7 Birchin Lane
London EC3V 9BY

01 895 8050
01 626 2150
(Answerphone)

Devonshire Executive Ltd

A member of The Devonshire Group Plc

FIMBRA

BUSINESS SYSTEMS MANAGER

FIMBRA, The first Self Regulating Organisation to gain recognition under the Financial Services Act 1986, is looking for a Business Systems Manager to report to the Director Of Planning and Systems.

Managing a small team, you will be responsible for the planning and conduct of internal consultancy studies, developing solutions and, notably, assisting in the implementation of recommendations. The job will involve *the analysis of business requirements and requires the* knowledge and experience to work with DP staff where appropriate.

You *must* be *an* experienced and committed *professional* with at least 10 years experience of business systems work including several years as a team leader and/or in consultancy, as well as considerable diplomatic skills. You will be able *to relate to, and communicate with staff at all* levels in the Association.

The remuneration package will include pension and other benefits, and *will be no* barrier to a candidate *with the* appropriate experience and track record.

Applicants should please write in confidence, enclosing a full CV, to Miss A. Palmer at FIMBRA, *quoting reference* REC8.

**The Financial Intermediaries,
Managers and Brokers Regulatory Association,
22, Great Tower Street, London EC3R 5AQ**

PRIVATE BANKING

ASSOCIATE DIRECTOR

LONDON

c£30,000 + bonus + car

Our client, a dynamic, highly rated international financial *institution*, needs a disciplined, experienced sales person with a proven track record to join their London Private Bank.

The ideal candidate must have a sound knowledge of UK personal taxation and the ability to market a wide range of investment, banking, mortgage and fiduciary products and maintain long term customer relationships with senior executives of foreign banks, financial institutions, non domiciled UK residents and professional intermediaries.

Preferred age under 35 years. Candidates must have degree and/or professional qualification (FCA, LLB) or attended Army staff college.

The remuneration package includes an attractive bonus, company car and pension/medical/life coverage.

Applicants should apply with a brief CV to: Kohnhorst Irvine International, 53 Grosvenor Street, London W1X 9FH.

·Kohnhorst·Irvine·International·

ifpi

LEGAL ADVISER

IFPI (International Federation of Phonogram and Videogram Producers) represents the worldwide music industry and safeguards the interests of its member companies in over 60 countries.

We are seeking a lawyer with knowledge of copyright and related legislation. In particular, experience of European Community law is essential as the person appointed will be closely involved with IFPI's campaigns at the EC level.

Candidates should be qualified to practise in an EC member state, be fluent in English and at least one other major European language. Knowledge of the *music industry would be an advantage.*

An attractive salary and benefits will be paid in line with qualifications and experience.

Applicants should apply in writing with full career details to Ian Thomas, Director General, IFPI Secretariat, 54 Regent Street, London W1R 5PJ marking the envelope "Confidential/L_Ad"

At a Career Crossroads

We are looking for mature people aged 25-55 with an industrial or professional background to be trained to offer a wide range of financial services to business, professional intermediaries and individuals (Income is limited only by your *own* ability and determination; we offer an attractive benefits package as well as commission)

Telephone Ray Sawyer on 01 404 4028

Hoggett Bowers City Division

A MEMBER OF BLUE ARROW PLC

Moorgate Hall, 153/157 Moorgate, LONDON EC2M 6XB. 01-588 4305/6

Portfolio Manager ***c£50,000***

A prestigious International Investment House is seeking an additional Manager of funds with at least five years proven track record of investment within UK and European sectors. The successful applicant will be joining a highly reputable team whose commitment to London is unquestionable.

Assistant Manager – Private Banking ***£25,000+***

Prime International bank wishes to recruit an Assistant Manager for their Private Banking area, to be involved in directing and controlling the marketing, packaging and selling of services and financial products to customers wishing to invest in the UK. The successful candidate will be aged around 30 and have had at least 5 years experience in private banking, and be prepared for overseas travel. Prospects and benefits are excellent.

Marketing Officer – Trade Finance ***£25,000***

A Major International bank in the City is looking to supplement its business development team with a Marketing Officer who specialises in the trade finance sector. Duties will encompass the development of UK corporate business and the maintenance of existing account relationships. The successful candidate will be aged 25-35 and have had previous experience in a similar role within a banking environment.

Assistant Manager – Eurobond Settlements ***c£23,000***

This is a key role in a prestigious City Securities House. Reporting to the departmental head, you will be responsible for a small but hectic section of six staff and for the timely and correct processing of all bond transactions. Candidates should be aged in their mid to late twenties and ideally should have previously held a supervisory position.

Internal Auditor ***£Neg***

A top European financial institution requires an experienced internal auditor to head up the audit function of its UK operations. The incumbent will be responsible for the planning and implementation of thorough auditing policies reporting to the General Manager. Previous auditing experience gained in a banking environment is essential.

Account Officer ***£21,000***

Major European bank seeks an experienced credit and marketing officer to join its highly successful marketing team. The successful candidate will be aged mid-late 20's with sound Credit Analysis and Marketing experience, in addition fluency in French is required. This front line role involves extensive Marketing within the UK, prospects are excellent.

Investment Administration Supervisor ***To £18,000***

The Investment Management arm of a leading international bank seeks an additional section head with supervisory experience related to portfolio accounting, statistical analysis, valuations and global custody. Prospects are excellent for the successful candidate.

Graduates ***£13,500***

A Major International bank is seeking to recruit two graduates with at least 18 months international banking experience to join its audit function. The role involves travel within Europe and the Far East and provides an excellent insight into all investment banking activities. These are progressive positions which require good analytical and communication skills as well as a positive approach to problem solving.

COST DRAUGHTSMAN
£23-26,000 + 6 MONTHLY BONUSES + BENEFITS

COST CLERKS
£16-20,000 + 6 MONTHLY BONUSES + BENEFITS

For well-established, medium/large, CITY SOLICITORS. Senior post requires substantial TAXING experience; this is in addition to the usual case assessments, valuing contributory factors. Age is no barrier.

Call Susie Norman/ Mike Morell 01-256 1555 or write to MERIDIAN REC CONS, 25 Museum St., WC1A 1JT

Appointments Wanted

Export Sales Manager, Danish, 43, International Business-Experience, wishes contact with International Company. Languages: Danish, English, German, Italian, some French/Swedish. Travels and/or permanent transfer other countries possible.

Please Write: Box A[illegible], Financial Times, 10 Cannon Street, London EC4P 4BY

Development Capital Executive

To £40,000 p.a. plus Car and Bank Benefits

Our client, an established City banking subsidiary of a North American financial institution is expanding its activities in Corporate Finance and Development Capital.

As part of this growth our client wishes to recruit an experienced Development Capital Executive with at least three years' specific experience of structuring and monitoring investments.

The successful candidate will be a graduate aged 30-35 with an appropriate professional qualification, extensive contacts in the industry and the vision to establish a strategy for the future.

Please write with your career details to J. D. Vine, (Ref. FT/13) Vine Potterton Limited, 152/153 Fleet Street, London EC4A 2DH. Please state separately if there are any companies in which you would not be interested.

VINE POTTERTON
RECRUITMENT ADVERTISING

SENIOR FINANCE ACCOUNTANT

Salary circa £20,000 p.a.

CCAT and Essex Institute of Higher Education expect to merge in April 1989 to form a large PCFC funded institution with corporate status.

The successful applicant will be responsible to the Directorate for establishing and developing the financial system for the new institution and initially he/she will be required to supervise CCAT's accounting requirements.

Candidates must be qualified accountants with a proven record of innovation and experience in either public sector or commercial accounting.

CCAT is a College of Higher Education.

Further details and application form may be obtained from the Senior Administrative Officer, CCAT, East Road, Cambridge CB1 1PT, telephone (0223) 63271, ext. 2031.

Applications close on 29th April 1988.

Applicants wishing to discuss the details of this post on an informal basis should contact the Chief Administrative Officer or Vice-Principal.

Equal Opportunity Employer.

CCAT
CAMBRIDGE

Treasury Opportunities

SOUTH COAST

The Alliance & Leicester is seeking to augment its Treasury team with appointments to the following newly created positions:–

GILT DEALER
SALARY NEGOTIABLE

The prime responsibility of this position will be to trade part of the Society's Gilt portfolio, *operating largely in the shorter end of the market.* Applicants should be thoroughly conversant with, and have substantial practical experience of, the Gilt-edged market and appropriate hedging techniques. A highly attractive salary package, including a performance-related element, will be negotiated with the successful applicant.

CHIEF TREASURY OFFICER
SALARY NEGOTIABLE
FROM £25,000 + CAR

This position will involve working with the Treasurer and Deputy Treasurer in the running of the Society's Treasury area, including the setting of strategy for day-to-day dealing activities, evaluating wholesale funding opportunities and risk management. Applicants should have sound and 'hands-on' experience in the money and capital markets, and be able to negotiate transactions at a senior level.

WHOLESALE FUNDING ADMINISTRATOR
SALARY NEGOTIABLE
FROM £20,000

The prime responsibilities associated with this position will be the handling of documentation of borrowings under negotiation, implementation and the administration of the Society's wholesale funding, which currently totals in excess of £1,100 million, and monitoring developments and opportunities in the capital markets. *Applicants should have a good knowledge of, and* experience in, the transaction execution of capital market borrowings.

Applications giving comprehensive details of experience and qualifications should be addressed to: Miss K. Hailwood, Personnel Officer, Alliance & Leicester Building Society, Hove Administration, Hove Park, Hove, East Sussex BN3 7AZ.

We are an equal opportunity employer.

ALLIANCE & LEICESTER
The working partnership

Compliance Officer

An exceptional opportunity to develop a compliance function in a top City company

To £35,000 + car

Our client, a major European financial services institution, is forming a new asset management company, combining their institutional and private client investment mangement activities in London. Although they already have an enviable record for growth and investment performance, their reputation will be further strengthened as one of the largest and most successful fund management groups in the UK.

As a result of these changes, they wish to recruit a Compliance Officer who will have sole responsibility for compliance. Ideally you will be a qualified solicitor or barrister with compliance experience in a major City organisation. You will also possess the personal qualities necessary to gain the confidence of senior *management* and develop the role to encompass the wider legal/company secretarial issues arising in this rapidly expanding organisation.

In addition to a highly competitive salary, the remuneration package includes performance bonus, car, mortgage subsidy, BUPA and a non-contributory pension scheme.

Please apply in confidence, quoting reference CO/20819/FT.

All applications will be forwarded unopened to our client unless you list companies to which you do not wish to apply in a covering letter and address the envelope to the Security Manager: CJRA

Campbell-Johnston Recruitment Advertising Limited
3 London Wall Buildings, London Wall, London EC2M 5PJ.

MANAGING DIRECTOR WEST END

Salary negotiable, profit share and excellent company package

Our client, a successful City based financial services group, is seeking to appoint a senior director to head up their new West End office and to develop and market their services to solicitors and accountants as well as the corporate field.

Suitable candidates will have particular expertise in life, pensions, personal tax planning and will currently hold a senior position with an independent brokerage or similar organisation. They will also have to demonstrate strong management skills, excellent technical knowledge in the relevant areas, combined with a successful sales career at the highest level.

This appointment offers a wonderful opportunity to build up and lead a team offering intergrated financial services for pensions, life and investment business in the new market ahead. The package, including profit sharing, will be very rewarding for the high calibre executive required.

The group has an outstanding reputation for personal financial services and the new West End office is part of a much larger expansion programme. Please quote reference B1946.

Age 30-45

STEPHENSON & WARE LIMITED
FINANCIAL RECRUITMENT CONSULTANTS

2/9 MASONS AVENUE, BASINGHALL STREET, LONDON EC2V 5BT
TEL: 01-600 0199

Merrill Lynch International Bank

Due to expansion of our international financing activities, we are seeking to appoint a Senior Marketing Officer to our Central European Group.

The successful candidate will be part of a team which provides tailored strategies utilising collateralised lending in international capital markets.

You will have:

* A minimum of 5 years' experience in Investment, Commercial and/or Private Banking.
* Proven sales and relationship management accomplishments.
* Fluency in English, German and/or French.
* An MBA or equivalent qualification.
* Strong communication skills.

The position will be London based, with extensive travel to Europe required.

Please write with full career details to Barbara Jenkins, Recruitment Manager, Merrill Lynch Europe Ltd, Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY.

Merrill Lynch
A breed apart.

ANGLO MANX BANK LIMITED

The Isle of Man banking subsidiary of a substantial UK group is expanding its banking and trust company business. Applications are invited for two senior positions based in the Isle of Man.

SENIOR MANAGER – BANKING

An experienced banker is required to be responsible for the administration and accounting operations of the Bank. A high level of integrity is necessary together with the ability to supervise staff and to ensure that controls and procedures are maintained to the highest standards.

The position will suit a person with at least five years experience of bank administration or accounting. Some knowledge of credit management would also be an advantage.

The position will represent an opportunity to grow with the Bank and to extend responsibilities in the future.

Remuneration package up to £35,000, company car and profit sharing scheme.

CHIEF EXECUTIVE
GROSVENOR TRUST COMPANY

A Chief Executive is required for Grosvenor Trust Company Limited, a subsidiary of Anglo Manx Bank. The executive will be responsible for the management and development of the Company's activities in the Isle of Man and internationally.

An outstanding executive is required with

- strong marketing and business development ability
- the ability to control and motivate staff and to maintain sound controls and administration procedures
- the ability to ensure that the highest ethical and professional standards are maintained in the Company's work

Several years experience of trust company work is required and a substantial base of existing international contacts would be helpful. The position will suit a person with legal, accounting or trustee qualifications and experience of working in a banking environment will be an advantage.

Remuneration package up to £50,000, company car and profit sharing scheme.

Please write enclosing a CV to Mr B F Mason, Anglo Manx Bank Limited, 5 Athol Street, Douglas, Isle of Man. Tel. (0624) 23845

U.S. STOCKBROKER

We are looking for Trainee Trading Assistants to join our London desk. Applicants should be self-motivated and keen. Some knowledge of the workings of the Stock Market would be an advantage.

Write Box A0848, Financial Times, 10 Cannon Street, London EC4P 4BY

"FRUSTRATED" Sales Professionals living or working in London and Home Counties Telephone Peter Ellery on 01 734-8070

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"REDUNDANT" Managers and Executives in London and Home Counties Telephone Peter Ellery on 01 734-8070

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If you're 25-35, ambitious and like working with a successful team, call:

Nic Ingram on 01 491 4178. West End Office.

CJA RECRUITMENT CONSULTANTS GROUP

3 London Wall Buildings, London Wall, London EC2M 5PJ
Tel: 01-588 3588 or 01-588 3576
Telex No. 887374 Fax No. 01-256 8501

CJRA LONDON

GILTS TRADER

C. £40,000-£70,000 plus +benefits

ONE OF THE WORLD'S LARGEST INTERNATIONAL SECURITIES HOUSES – LONG ESTABLISHED IN LONDON, NEW YORK AND TOKYO

We invite applications from traders, aged 25-33, with at least 3 years gilts trading experience with a major market maker. Reporting to our executive directors you will be responsible, with an assistant, for establishing and developing the gilts trading activity. Initially this will be at the more liquid end of the market, but later moving into more specialised areas. The major satisfaction from this appointment *will come from building-up an effective and closely knit team of gilts* traders. Initial negotiable earnings (by way of high base salary and annual bonus) are likely to be in the range of £40,000-£70,000 although earnings may be substantially higher if merited. Other benefits include non-contributory pension and mortgage subsidy.

For this assignment we are particularly keen to hear from candidates in strict confidence by telephone on: 01-628 0969 or alternatively *written applications quoting reference GT 20804/FT will be forwarded* unopened to our client unless *you state companies* to which they should not be sent in a covering letter marked for the attention of the Security Manager: CJRA.

3 LONDON WALL BUILDINGS, LONDON WALL, LONDON EC2M 5PJ. TELEPHONE 01-588 3588 or 01-588 3576. TELEX: 887374. FAX: 01-256 8501.

IPS GROUP

FINANCIAL FUTURES DEALER/BROKER
c£20,000+

Two new positions have arisen for financial futures dealers with at least 18 months experience in an active dealing environment.

C5741

EQUITY SALES/RESEARCH
£ NEG

We have a number of specific requirements for European equity analysts and sales people. In addition we are looking for experienced U.K. analysts to cover a number of sectors. In all cases salaries are negotiable according to experience.

C5732

SYSTEMS ANALYST
£20,000

Two/three years experience as business analyst in Bank/ Securities House or Investment Management environment for leading Merchant Bank. Plus good understanding of computer concepts and controls.

C5733

TREVOR JAMES CITY
62-64 Moorgate London EC2R 6EL
Tel: 01-920 9512

MALAYSIA MINING CORPORATION BERHAD
(Incorporated in Malaysia)

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twelfth Annual General Meeting of members of Malaysia Mining Corporation Berhad will be held at the International Hall, Ground Floor, The Merlin Hotel, No. 2, Jalan Sultan Ismail, 50250 Kuala Lumpur, Malaysia on Wednesday, 11th May, 1988 at 11.00 a.m. for the purpose of considering and, if thought fit, passing the following as ordinary resolutions:

Ordinary Business

1. 'THAT the respective balance sheets and profit and loss accounts together with the notes thereon of the Company and of the Group which state the affairs of the Company and of the Group at 31st January, 1988 and of the results of the Company and of the Group for the year ended on that date, together with the statement of source and application of funds of the Group for the year ended 31st January, 1988 and the reports of the Directors and Auditors be and are hereby received and adopted, and the final dividend of 2 sen per 10 sen share, less tax at 40%, be and is hereby approved and declared payable on 28th May, 1988 to the members of the Company registered at the close of business on 22nd April, 1988.'
2. 'THAT YBhg Datuk Mohd Desa bin Pachi, who retires by rotation, be and is hereby re-elected a Director of the Company.'
3. 'THAT Encik Zain Azahari bin Zainal Abidin, who retires by rotation, be and is hereby re-elected a Director of the Company.'
4. 'THAT Messrs Peat Marwick, who are eligible and have given their consent for re-appointment, be and are hereby re-appointed the Company's Auditors for the period until the conclusion of the next Annual General Meeting and that the remuneration to be paid to them be fixed by the Board.'

Special Business

5. 'THAT the authorised capital of the Company be increased from M$50,000,000 to M$70,000,000 by the creation of 200,000,000 new ordinary shares of M$0.10 (10 sen) each.'
6. 'THAT conditionally upon the passing of Resolution No. 5 above and pursuant to Section 132D of the Companies Act, 1965, the Directors of the Company be and they are hereby generally and unconditionally authorised, notwithstanding the provisions of Article 5 of the Articles of Association of the Company, to allot and issue all or any of the new ordinary shares so created to any persons upon such terms and conditions and at such times and for such purposes as the Directors may, in their absolute discretion deem fit, whether pursuant to an offer agreement or option made or granted by them or otherwise, subject always to the approval of all relevant regulatory bodies being obtained for such allotment and issue.'

By Order of the Board
Abdul Malek Abdul Majid
Wan Mohamed Wan Yusoff
Secretaries

Kuala Lumpur
13th April, 1988

Notes:

(i) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(ii) Copies of Directors' service contracts are available for inspection at 38th Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur on any weekdays (except Saturdays) from 13th April to 11th May, 1988 during usual business hours and will also be available for inspection at The International Hall, Ground Floor, The Merlin Hotel, No. 2, Jalan Sultan Ismail, 50250 Kuala Lumpur on 11th May 1988 for fifteen (15) minutes prior to and until the conclusion of the Annual General Meeting.

(iii) A form of proxy to be valid must reach the Malaysian Registrars' office at 32nd Floor, Menara PNB, 201A, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia or the United Kingdom Registrars' office at Hill Samuel Registrars Limited, 6 Greencoat Place, London SW1P 1PL, not less than 48 hours before the meeting.

F & C NORTH AMERICAN MAJOR COMPANIES FUND
societe d'investissement a capital variable
Registered Office: Luxembourg, 14 rue Aldringen
Commercial Register: Luxembourg Section B No. 25.578

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of F & C NORTH AMERICAN MAJOR COMPANIES FUND will be held at its registered office at Luxembourg, 14 rue Aldringen, on April 21st, 1988, at 12.30 hours for the purpose of considering and voting upon the following matters:

1. To hear and accept:
   a) the management report of the directors
   b) the report of the statutory auditor.
2. To approve the balance sheet and the profit and loss account for the first financial period ended December 31st, 1987. Allocation of net profit.
3. To discharge the directors and the auditor with respect to their performance of duties during the first financial period ended December 31st, 1987.
4. To elect the directors to serve until the next annual general meeting of shareholders.
5. To elect the auditor to serve until the next annual general meeting of shareholders.
6. Miscellaneous.

The shareholders are advised that no quorum for the statutory meeting is required and that decisions will be taken by the majority of the shares present or represented at the meeting.

In order to take part at the statutory meeting of April 21st, 1988, the owners of bearer shares will have to deposit their shares five clear days before the meeting at the registered office of the Fund, 14, rue Aldringen, Luxembourg, or with the following bank:
- Banque Generale du Luxembourg, S.A., 14, rue Aldringen, Luxembourg.

The Board of Directors.

DOME PETROLEUM LIMITED
$US 75.000.000
FLOATING RATE NOTES DUE 1998

For the six months, April 11, 1988 to October 10, 1988, the rate of interest has been fixed at 7,50% P.A.

The Principal Paying Agent
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, Avenue Emile Reuter
LUXEMBOURG

PUTNAM EMERGING INFORMATION SCIENCES TRUST S.A.
Société Anonyme d'Investissement
Luxembourg, 43, boulevard Royal
R.C. Luxembourg B22.516

Notice of Meeting

Messrs. Shareholders are hereby convened to attend the Annual General Meeting which will be held on April 29th, 1988 at 11.00a.m. at the registered office, with the following agenda:

Agenda

1. Presentation of the reports of the Board of Directors and of the Statutory Auditor.
2. Approval of the balance sheet, profit and loss account as of December 31st, 1987 and the allocation of net profits.
3. Approval of the remuneration of Directors.
4. Discharge of the Directors and the Statutory Auditor for the fiscal period ended December 31st, 1987.
5. Action on nomination for election of Directors and a Statutory Auditor for the ensuing year.
6. Any other business which may be properly brought before the meeting.

Resolutions on the items of the agenda will require no quorum and may be passed at a simple majority of the shares present or represented at the meeting.

The Board of Directors

F & C ORIENTAL FUND S.A.
societe anonyme d'investissement
Registered Office: Luxembourg, 14 rue Aldringen
Commercial Register: Luxembourg Section B No 18.865

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of F & C ORIENTAL FUND S.A. will be held at its registered office at Luxembourg, 14, rue Aldringen, on April 21st, 1988, at 12.30 hours for the purpose of considering and voting upon the following matters:

1. To hear and accept:
   a) the management report of the directors
   b) the report of the statutory auditor.
2. To approve the balance sheet and the profit and loss account for the year ended October 31st, 1987.
3. To discharge the directors and the auditor with respect to their performance of duties during the year ended October 31st, 1987.
4. To elect the directors to serve until the next annual general meeting of shareholders.
5. To elect the auditor to serve until the next annual general meeting of shareholders.
6. Miscellaneous.

The shareholders are advised that no quorum for the statutory meeting is required and that decisions will be taken by the majority of the shares present or represented at the meeting.

In order to take part at the statutory meeting of April 21st, 1988, the owners of bearer shares will have to deposit their shares five clear days before the meeting at the registered office of the Fund, 14 rue Aldringen, Luxembourg, or with the following bank:
- Banque Generale du Luxembourg, S.A., 14, rue Aldringen, Luxembourg.

The Board of Directors.

F & C EUROPEAN FUND S.A.
societe anonyme d'investissement
Registered Office: Luxembourg, 14, rue Aldringen
Commercial Register: Luxembourg Section B No 21.071

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of F & C EUROPEAN FUND S.A. will be held at its registered office at Luxembourg, 14, rue Aldringen, on April 21st, 1988, at 12.00 hours for the purpose of considering and voting upon the following matters:

1. To hear and accept:
   a) the management report of the directors
   b) the report of the statutory auditor.
2. To approve the balance sheet and the profit and loss account for the year ended October 31st, 1987.
3. To discharge the directors and auditor with respect to their performance of duties during the year ended October 31st, 1987.
4. To elect the directors to serve until the next annual general meeting of shareholders.
5. To elect the auditor to serve until the next annual general meeting of shareholders.
6. Miscellaneous.

The shareholders are advised that no quorum for the statutory meeting is required and that decisions will be taken by the majority of the shares present or represented at the meeting.

In order to take part at the statutory meeting of April 21st, 1988, the owners of bearer shares will have to deposit their shares five clear days before the meeting at the registered office of the Fund, 14, rue Aldringen, Luxembourg, or with the following bank:
- Banque Generale du Luxembourg, S.A., 14, rue Aldringen, Luxembourg.

The Board of Directors.

WHAT WE'RE OFFERING COULD CHANGE YOUR WAY OF LIFE

Become an Adviser with Hill Samuel Investment Services - and your whole way of life could change. Not only will you be seeking out your own clients and introducing them to our exceptional range of products - you will be making your own decisions about how and when you work.

We are holding an Open Evening and if you come along, you will have the chance to ask the questions you want to ask, in an informal relaxed atmosphere. You will hear about the excellence of our training and the remarkable rewards that can - quite realistically - be achieved.

So if you are aged between 25 and 50, a natural communicator with integrity, dedication and self-assurance, with a successful track record, sales experience, a store of energy and a desire for success, contact us for an invitation for you (and your partner) to a seminar.

Please ring or write to:
David Hall, Hill Samuel Investment Services Ltd,
1 Maddox St, London W1R 9WA Telephone No. 01-434 4583

Smith New Court Europe, a team totalling 20 people, covering 6 Continental European Stockmarkets from London and New York, are looking to expand their broking team through an additional

SENIOR EUROPEAN SALESMAN

2 to 3 years minimum experience in the major Continental Markets is required.
Please contact: Dr Alexander Dehmel/Nichola Pease, Smith New Court Europe, P.O. Box 293, Chetwynd House, 30 St Swithin's Lane, London EC4N 8AE. Tel: 01-626 1544.

SMITH NEW COURT
EUROPE

INTERESTED IN FINANCIAL MARKETS?

The British Bankers' Association represents British and overseas banks on a range of issues to Government, official bodies and to the world at large.

Vacancies have arisen at Assistant Secretary level in the BBA's Secretariat; this also serves The Committee of London & Scottish Bankers.

Candidates are likely to be graduates with experience in one or more of the following areas: taxation; accountancy; financial markets; domestic and European legislation affecting banks; the economics of financial systems; regulation and supervision. A high standard of written and oral communication will be expected.

The posts are challenging and offer good scope for personal development. Work will involve preparing papers and policy statements for BBA and CLSB Committees, attending to their administration and implementing their decisions. It may also involve undertaking background research and writing articles for publication. A prime requirement is the development of contacts in official and private bodies both in the UK and overseas.

A competitive salary c. £20,000 (or more might be offered to an exceptional candidate) together with a range of benefits will be an attraction. The likely age is 25/35. Candidates should write with C.V. and details of current salary to:-

Head of Administration
British Bankers' Association
10 Lombard Street
London EC3V 9EL

British Bankers' Association

EUROPEAN FUND MANAGER

Major Independent British Group

A well known independent British fund management group, with total funds under management in excess of £16 billion, is seeking a Manager in its European Department.

Applicants will be educated to degree level and should have at least three years' direct involvement with continental European markets. Experience as a fund manager is preferred but time spent as an analyst will also be considered relevant. Working closely with the Director responsible for the Department, the successful candidate will be actively involved in all aspects of the general management of the team, including asset allocation decisions and marketing.

This is an outstanding opportunity to join one of the leading asset management organizations in the City. The company is determined to attract a person of the highest calibre, and consequently is prepared to offer an extremely attractive, individually structured package to secure the services of the right person.

All replies will be treated in the strictest confidence and should be addressed to the consultants retained for this assignment:

SC
SELECTION
84 Palace Court, London W2 4JE

BULLION BROKER

We are a recently established Bullion Broker in London. We wish to recruit an additional Bullion Broker to cover Swiss, German, French and other UK based houses. Candidates should be aged between 25-35 years and have a minimum of five years experience as a Bullion Broker. A detailed knowledge of the Swiss bullion market is essential as is fluency in German, Swiss German, French and English. A knowledge of Italian would be an advantage.

In return a competitive compensation package and excellent career prospects are guaranteed.

Please send a CV to
Gerhard Schubert, Managing Director, at D.F.S. Bullion, 9/13 Fenchurch Buildings, London EC3.

TULLET & TOKYO (FUTURES & TRADED OPTIONS) LTD

Anticipate joining the London Traded Options Market in an order execution role.

We require the services of two options traders for our floor operation. Successful candidates should currently be on the register of Traded Option Dealers and have two years experience in this field.

Competitive remuneration packages will be offered to the successful applicants.

Please reply, enclosing a current C.V. with present salary. All applications will be considered in the strictest confidence.

To: C. Roberts - Director
Tullett & Tokyo
(Futures & Traded Options)
Ltd, Ormond House,
63 Queen Victoria Street,
London EC4N 4ST

INTERNATIONAL BANKING

PERSONNEL MANAGER
Max age 50 — up to £40,000 p.a.

A leading international bank seeks an experienced personnel manager to join its staff of 150 at an important stage in the bank's development.

This is a new appointment which will provide an excellent opportunity for the successful applicant to make a major contribution to the bank's expansion and future.

The ideal candidate will be a graduate and/or IPM qualified, with experience in both industry/commerce and banking. The importance of the position is reflected in the remuneration package which includes a full range of banking benefits.

Please speak in complete confidence with Elizabeth Hayford on 377-5040 or write to her at:

LJC BANKING APPOINTMENTS
Devonshire House, 146 Bishopsgate, EC2M 4JX.
01-377 5040

BRANCH MANAGER

An established Arab Bank in London requires a Branch Manager for its new branch to be opened in London.

For this position applicants should be Arabic speaking and have relevant experience.

Salary is £20,000 negotiable depending on experience and an excellent package of fringe benefits and car are provided.

Please send C.Vs to:
The Deputy General Manager
ALBARAKA INTERNATIONAL BANK LTD
14 Cavendish Square, London W1M 9DA

FCS Project Manager
20K plus Car

We are seeking a seasoned professional with 4 or more years FCS 4GL experience and a track record of managing a team of skilled designers and coders on top projects. Experience in the public sector or government will be particularly beneficial together with proven ability to handle a team of 10 people. Send CV to:

Dr Nigel Geary, Henley Business Software Limited, Newtown Road, Henley-on-Thames, Oxon RG9 1HG

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We are a privately owned, successful and innovative Financial Services Group in the city which is diversifying into the sales aid leasing business. We are looking for an ambitious and self-motivated person with extensive experience in the sales aid leasing industry to head up this section of the group. The position will be challenging and demanding and the preferred candidate will be expected to make a major contribution to the management, profitability and success of this venture. In return, a highly competitive remuneration package will be offered, including the opportunity to own a share of the equity.

Please send a comprehensive C.V. in confidence to:

Box A0836
Financial Times
10 Cannon Street
London EC4P 4BY

CHARTERHOUSE APPOINTMENTS

For Situations Vancant

In Foriegn Exchange & Commodities
Call 481 3188

Europe House, World Trade Centre
London E1 9AA

APPOINTMENTS

Greenwell Montagu chief

Mr Ernest J. Fenton has been appointed chief executive of GREENWELL MONTAGU and SMITH KEEN CUTLER. He was international director of Greenwell Montagu Securities and formerly partner in charge of equity research at W. Greenwell & Co. The companies are both subsidiaries of the Midland Bank Group.

*

Mr David S.Jarrold is joining GALLAGHER PLUMER as director of the international division.

*

BRITISH AEROSPACE SIMULATION has appointed Mr M.D. French as commercial director and Mr R.W.Carling as financial director. Mr French was commercial manager, North America with BAe's military aircraft division and Mr Curling was formerly finance manager, military aircraft division.

*

Four directors have been appointed at MARR FROZEN FOODS: Mr David Cheeseman, finance and company secretary, Mr Jeff Evans, sales and marketing, Mr Gerry Raines, production and buying, and Mr Dave Vickers, chilled seafoods and depot trading.

*

CITY RESPONSE has apppointed Mr Grahame Wickison its sales director. He was sales manager.

*

BERKELEY ST JAMES has promoted Mr Robert Lim to director of finance.

*

Mr Ian H.C. Watson has been appointed chief executive of INITIAL SERVICE TEXTILES. He was previously deputy chief executive.

*

The MORGAN CAMERON GROUP has been formed by the merger of Morgan Insurance Group and Cameron-McDonald. Mr Ken Morgan becomes chairman and Mr Ian Cameron deputy chairman and chief executive. Mr Deryck Green, Morgan's chief executive, is made group managing director.

*

ROBERT FLEMING ASSET MANAGEMENT has made the following appointments: Mr Charles Nunneley, deputy chairman of Robert Fleming Holdings, has become chairman and Mr John Manser, formerly chief executive of the Save and Prosper Group, chief executive. Mr Paul Bateman, Mr John Emly, Mr Patrick Gifford, Lord Mark Fitzalan Howard, Mr Christopher Tracey and Mr Julian Tregoning have become directors.

*

PERSIMMON has made the following appointments: Mr Michael Allen has been appointed chairman of Persimmon Homes (Thames Valley). Mr John Grimes has become managing director of Persimmon Homes (Thames Valley). Mr Norman J. Lilley has been made managing director of Persimmon Homes (East Yorkshire). He is also managing director of Persimmon Homes (Yorkshire).

*

Following the acquisition of Young Austen & Young by BRIGHTSIDE ENVIRONMENTAL ENGINEERING, the following board appointments have been made at Brightside-YAY: Mr Jalal M. Jalal, chairman, Mr George Deanes, managing director, Mr David Walker, company secretary, Mr M.Y. Jalal, Mr Derek Kemp (southern region director), Mr David Findlay (Midland region director) and Mr Don O'Neill, northern region director.

*

GT MANAGEMENT has made the following appointments: Mr David Fitzwilliam-Lay, chairman of GT's Japanese and American operations, becomes vice chairman of GT Management. Mr Hugh Sloane and Mr Masato Kawada, head of investment and senior investment respectively at the Tokyo office, become directors. Mr Peter Wakefield also becomes a director. He joined GT Pensions Management in March. Mr Michael Hill, personnel director, and Mr John Griffin, who is responsible for worldwide client administration and systems, also join the board.

*

BECHTEL LTD has appointed Mr Tony Clayton director and manager of power and industrial projects. He was chief executive of Foster Wheeler Power Projects.

*

Mr John Hirsch has been made a non-executive director of HAMWORTHY ENGINEERING, a member of the Powell Duffryn group. He is chairman of Tinsley Bridge.

*

Mr Leonard W. van Geest has been appointed a non-executive director of the LITTLEWOODS ORGANISATION. He is chief executive of Geest, Spalding.

*

Mr J.V. Parsons has been appointed a director of WILLIAM BAIRD from May 3. He joins from Williams Holdings where he is chief executive of the specialist engineering division. Mr Parsons will succeed Mr D.J. Grant on his retirement as chief executive of Darchem at the end of May. He remains on the board of Baird and as chairman of Darchem in a non-executive capacity.

*

Mr Robin R. George, director and group treasurer of Wellington Underwriting Agencies, has been appointed to the board of GREENWICH BUILDING SOCIETY.

*

GRANVILLE & CO has made the following board appointments: Mr Steven Sussman, company secretary and controller, Mr James Wellesley Wesley, corporate finance, and Mr David Williamson, corporate finance. Mr Mike Nally, stockbroking, Mr Richard Verson, stockbroking, and Mr David Webb, investment management, have been appointed assistant directors.

*

RUGBY CEMENT has appointed Mr John Newton to the new post of commercial director. He joins from ARC where he was a divisional director for the SE region with general management responsibilities for its coated stone, quarry products and waste disposal operations.

*

Mr John Curtis has been appointed sales director of VAN DEN BERGHS from July 1 in succession to Mr Ron Evans who is to retire.

CONTRACTS

Upgrading Islington offices

Companies within the TRAFALGAR HOUSE's building and civil engineering division have won contracts worth in excess of £28m. Trollope and Colls City has been awarded a £14m "fast track" contract by British Telecom for the comprehensive upgrading of a 17-storey office block in Old Street, Islington.

The contract is part of British Telecom's policy to modernise older buildings within its headquarters' estate, making them fit for high-technology purposes in the 1990's. By careful design and use of system furniture, British Telecom expects to double the number of staff occupying the building. In a tightly managed 58-week programme, Trollope and Colls will strip back the 1960's building to its superstructure and then completely reclad, refit and finish.

Externally, the work will include the removal of windows and infill panels and replacing them with a glazed cladding system. A roof covering and a roof cradle and aerial gantry will also be fitted.

Internally, services will be provided throughout with newly-fitted plantrooms at the top and on the lower ground floor. Floors one to 14 will be entirely refurbished to provide office accommodation served by four new lifts.

Cementation Piling and Foundations has been awarded contracts worth over £12m. Some of the larger projects include: a £1.2m project for the Scottish Development Agency to carry out the infilling of former coal workings, up to 35 metres beneath the four-storey tenement buildings in the Barlanark area of Glasgow; a foundation contract for the extension to Total Oil's North Sea gas terminal at St Fergus and the piling contract for the new Guildhall Centre in Stafford under construction by Fairclough Building for the Standard Assurance Company.

Cementation also has a piling contract worth nearly £1m for phase 2 of the extension of Lincoln Hospital for the Trent Regional Health Authority. Clugston Construction will undertake preliminary works for new wards and operating theatres, which will substantially add to the hospital's facilities.

At Tower Bridge, a contract worth nearly £1m has been received for two contiguous bored pile walls for underground car parking for "The Circle", a prime residential development by Jacob's Island. The walls, comprising some 800 piles, will be constructed mainly of 600mm diameter bored piles up to 20 metres deep.

Cementation Construction has been awarded £2m of work in Wales. They include two contracts, worth £1.3m, for flood protection improvements to dams at the Pontsticill reservoir, Mid Glamorgan and the Lower Carno reservoir, Gwent. Work will commence in April and the contracts will run concurrently for a period of 38 weeks.

Cementation has also been awarded a £700,000 two-year area bridges and structures maintenance contract by South Glamorgan County Council.

Victoria Park retail development

RUSH & TOMPKINS North Midlands is building the first phase of Arkwright Developments' £42m Victoria Park scheme at Netherfield, near Nottingham. The £4m initial contract is for a 135,000 sq ft retail park with a new £1.5m access road off the Colwick loop road and parking for 700 cars. The four modern retail warehouses are clad in purpose-made profiled aluminium panelling and quality facing brick. All have been prelet and will open in the autumn in time for Christmas.

The 85-acre Victoria site was formerly the largest concentration of railway sidings in Europe and has been considered an eyesore for many years. When completely developed it will sustain up to 3,000 jobs within five miles of Nottingham City Centre.

Future planned phases include a business park, leisure park with multiplex cinema, a fast-food restaurant and a pub. There could also be housing and retail shops, depending on an appeal by Arkwright against a planning refusal by Gedling Borough Council.

New Addington housing project

Contracts totalling more than £5m for houses, flats and a bowls pavilion in South London and Middlesex have been awarded to BUXTON. Largest of the awards is a £3.7m project for the London Borough of Croydon to build 56 two and three-bedroom houses, six four-bedroom houses and nine one-bedroom bungalows at Thorpe Close, New Addington.

Work is due to start shortly on a £761,000 contract for Plainworth to convert two Victorian houses and construct two extension blocks at The Avenue, Surbiton, to create 27 flats.

At Broad Street, Teddington, a design and build contract worth more than £685,000, has been awarded by Richmond upon Thames Leasehold Housing Association for five one-bedroom and 13 two-bedroom flats in a two-storey building, plus a warden's house.

In Minstead Gardens, Putney, six self-contained flats in a two-storey building are to be constructed for the Threshold Single Persons Housing Association under a contract worth more than £276,000.

At Milne Park West, New Addington, a bowls pavilion is being contructed for the London Borough of Croydon under a £143,000 contract.

Company Notices

COMPAGNIE BANCAIRE
Société Anonyme
Incorporated in France with limited liability.
Regd. Office: 5 avenue Kléber, Paris 16ème.

NOTICE TO SHAREHOLDERS

Following a Resolution passed at the Annual General Meeting on 22nd March, 1988 a dividend of Frs. 10.00 per share of Frs. 100 nominal for the year ended 31st December, 1987 was declared payable from 31st March, 1988 as follows:—

Residents of the United Kingdom will receive Frs. 7.50 per share of Frs. 100 nominal.

Settlements of Additional Payments:—

Under the terms of the Double Tax Convention between France and the United Kingdom, residents of the United Kingdom will receive, subject to the completion of Form RF4-GB, on or after 15th January, 1989 an additional Frs. 5.25 per share thus increasing their dividend to Frs. 12.75 per share.

Holders may however, submit Form RF4-GB at anytime up to 31st December, 1989.

Payments will be subject to deduction of United Kingdom Income Tax at the standard rate of 27%.

Claims should be lodged with:-
S.G. WARBURG & CO. LTD.
Paying Agency, 6th Floor,
1 Finsbury Avenue,
London EC2M 2PA

Crédit Lyonnais,
84/94 Queen Victoria Street, London EC4P 4LX

Banque Paribas,
68 Lombard Street, London EC3V 9EH

Société Générale,
60 Gracechurch Street, London EC3V 0HD,

from whom claim forms and further information can be obtained.

Copies of the Annual Report and Accounts will be available in French and in English on application to S.G. Warburg & Co. Ltd.

F & C ATLANTIC FUND S.A.
société anonyme d'investissement

Registered Office : Luxembourg,
14, rue Aldringen
Commercial Register : Luxembourg
Section B No 8.195

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of F & C ATLANTIC FUND S.A. will be held at its registered office at Luxembourg, 14, rue Aldringen, on April 21st, 1988 at 11.00 hours for the purpose of considering and voting upon the following matters :

1. To hear and accept :
   a) the management report of the directors
   b) the report of the statutory auditor.
2. To approve the balance sheet and the profit and loss account for the year ended December 31st, 1987.
3. To discharge the directors and the auditor with respect to their performance of duties during the year ended December 31st, 1987.
4. To elect the directors to serve until the next annual general meeting of shareholders.
5. To elect the auditor to serve until the next annual general meeting of shareholders.
6. Miscellaneous.

The shareholders are advised that no quorum for the statutory meeting is required and that decisions will be taken by the majority of the shares present or represented at the meeting.

In order to take part at the statutory meeting of April 21st, 1988, the owners of bearer shares will have to deposit their shares five clear days before the meeting at the registered office of the Fund, 14, rue Aldringen, Luxembourg, or with the following bank:
- Banque Generale du Luxembourg, S.A., 14, rue Aldringen, Luxembourg.

The Board of Directors

INTERNATIONAL DEPOSITARY RECEIPTS
Representing Shares Par Value $2.50 Common Stock
J.P. Morgan and Company Incorporated

A cash distribution of $0.375 per Depositary share will be payable on or after the 22nd April, 1988 upon presentation of Coupon No. 72 at:-

Morgan Guaranty Trust Company of New York
30 West Broadway,
(Corporate Trust Department),
New York.

35 Avenue des Arts,
Brussels.

Morgan House,
1 Angel Court,
London.

at the designated rate less applicable taxes.

This distribution is in respect of the regular quarterly dividend payable on the common shares P.V. $2.50 J.P. Morgan and Company Incorporated on 15th April, 1988.

Contracts & Tenders

EREGLI IRON AND STEEL WORKS, INC.
TURKEY

1 *Announcement is hereby made for the following two projects included within the* "CAPACITY IMPROVEMENT AND MODERNIZATION PROJECT" in the intergrated steel plant of Eregli Demir ve Celik Fabrikalari T.A.S. located at Kdz.Eregli Turkey. The project is aimed to increase production, improve product quality and reduce production costs and energy consumption including general and detailed engineering services and fabrication.

Project Name

A. CONTINUOUS CASTING FACILITIES NO.3 AND 4.

The continuous casting facilities annual production shall be 550.000 metric ton slabs per year each. Slabs shall be 750-1300 mm wide 200 mm thick at slab caster No.3; 1000-1650 mm wide, 140 and 200 mm thick at slab caster No.4.

Continuous casting machines, hydraulic and water cooling systems, computerized control systems, buildings, ot cranes, transfer cars, piping systems; and all other mechanical electrical equipment required for a complete operating system are in the scope.

B. ONE (1)-1500 TPH CAPACITY SHIP UNLOADER AND ONE (1) 25 TONS CAPACITY HARBOUR CARGO CRANE (LEVEL LUFFING CRANE WITH JIB).

2 Tender documents for each project mentioned under A and B above may be obtained from the following address as of 11 April 19888 and after depositing 750.000,-Turkish lira for each project to ERDEMIR Cashier's Office at Kdz.Eregli-TURKEY indicating the project name;

ERDEMIR, Vice-President Purchasing
Foreign Purchase Department (SA.17)
Kdz.Eregli, TURKEY

3 Pre-Bid conference and Plant Site visits shall be conducted on 25 and 26 May 1988 respectively.

Bid closing dates for both projects *A* and *B* are 08 and 09 August 1988 respectively and no sealed bids shall be taken into consideration for evaluation if submitted to our above mentioned company address after the said date(s).

4 Our company reserves the right to place the order either partially or completely with any bidder or to cancel the tender completely. The receipt of quotations shall in no way be binding upon our company

5 As the finance source either SUPPLIER'S CREDIT or any credit in foreign currency provided by Erdemir shall be utilized.

6 *The BIDDER or its technology supplier in case the BIDDER is a trading* company must have had successful experience in design, manufacturing, supply and start-up of similar type projects. Subsidiaries so selected by BIDDER or technology supplier must be well experienced companies in their respective fields also. Companies which intend to participate this international bidding must fill in and return preprinted "QUESTIONNAIRE FORMS" attached to the tender documents in order to provide information concerning their experience until 02 and 03 May 1988 respectively.

PERSONAL FINANCIAL PLANNING

The Financial Times proposes to publish this survey on:

23rd APRIL

For a full editorial synopsis and advertisement details, please contact:

David Owen
on 01-248 8000 ext 3461

or write to him at:

Bracken House
10 Cannon Street
London
EC4P 4BY

Irving Bank Shareholders: Can You Really Afford Not to Support The Bank of New York?

The Annual Meeting of Irving Bank Corporation is only a few days away—April 21. In our opinion you should vote to maximize your economic interest in Irving by signing and returning the GOLD Bank of New York proxy card today.

The Bank of New York Company, Inc. has made an offer to exchange 1.575 shares of Bank of New York common stock, plus $15.00 in cash per common share of Irving. On April 7 this offer was worth **$66.58** per share.

Let's see what independent banking analysts—who make a living analyzing financial statements and market movements—had to say about our offer and the possible trading price of Irving Bank without our offer.

"Without takeover speculation, Irving stock could be trading in the low 30s."

—Thomas Au, Value Line Investment Survey,
March 18, 1988[a]

"...Irving's stock would fall to the 30s without a takeover bid...."

—Mark Alpert, CFA and Mark Lynch,
Bear Stearns Investment Summary,
March 4, 1988[ab]

"BK (Bank of New York) has offered to acquire the entire company (Irving Bank) for a price that we estimate is about 80% above the level Irving's stock would trade without takeover speculation. BK's offer is a good one for Irving's shareholders and obviously much better than a theoretical breakup value[c] that's only worth the paper it's printed on."

"...some of the statements and actions by Irving's management and Board of Directors since the hostile takeover effort began, including the recent letter to shareholders, have been amazingly naive, misleading, and raise the question, in whose interest is the management and Board of Directors working? If I was an Irving shareholder, I would be disgusted with my Board of Directors, and vote for The Bank of New York slate."

—Thomas K. Brown, BankNotes,
Smith Barney & Co.,
March 30, 1988[a]

Both the Federal Reserve Board and the New York State Banking Board unanimously approved our application to acquire Irving[d] Despite extensive arguments made by Irving's management opposing the acquisition, these regulators concluded that the combined company will be financially sound.

Please consider the financial fundamentals of our proposed transaction when making your voting decision. By giving us your valid GOLD proxy, you are voting for a slate of directors dedicated to providing you with the opportunity to accept The Bank of New York offer. In our opinion you should vote to protect and maximize your financial interest. Vote the GOLD proxy card today.

IMPORTANT

The Annual Meeting of Irving Bank is April 21—only days away. Your GOLD proxy must be received in time to be voted at the meeting. Even if you have voted on Irving Bank's blue proxy, you have *every legal right to change your vote by sending in a later dated* GOLD proxy to us today. If your shares are held in street name and you need assistance in voting, please contact our proxy solicitors:

THE CARTER ORGANIZATION, INC. 1-800-365-5500
MORROW & CO. 1-800-634-4458

Sincerely,

J. Carter Bacot
Chairman of the Board
The Bank of New York Company, Inc.

[a] Permission to quote as proxy soliciting material neither sought from nor granted by the authors. Use does not imply endorsement of The Bank of New York's offer or its nominees. In each case, these materials discuss the value of Irving Bank stock in the context of considering Irving Bank as an investment alternative. Each of these analysts issues reports concerning Irving Bank and The Bank of New York from time to time.

[b] Bear Stearns & Company is associated with the specialist in the shares of The Bank of New York. That specialist (a) may have a position in the security; and (b) may be on the opposite side of public orders executed on the floor of the exchange.

[c] *Referring to a study provided by the investment banker for Irving Bank which estimated the aftertax value of Irving's businesses and assets at $82-$107 per share.*

[d] The approval of the Federal Reserve Board was granted subject to conditions relating to capital adequacy and other matters which The Bank of New York believes it can satisfy fully and promptly.

THE BANK OF NEW YORK COMPANY, INC.

LAW

Digest of cases reported in the Hilary Term

FROM MARCH 15 TO MARCH 31

National Bank of Greece SA v Pinios Shipping Co No 1
(FT, March 15)

On default of payment by the shipowners for the building of a ship, the plaintiff bank, which had guaranteed the first six promissory notes, arranged for agents to manage the vessel. The agents under-insured the ship, which subsequently became a total loss. The Court of Appeal upheld a first instance decision that the bank was not under a contractual duty of care to ensure that the agents took out full insurance on the grounds that there was no such generalised duty applying to all contracts of the present type and nor did such a duty arise on the particular facts of the case. The shipowner also could not succeed in claiming in tort against the bank where the claim in contract was the same. However, in the absence of agreement, express or implied, or by custom binding both parties, the bank was entitled only to simple interest and not to the compound interest awarded by the judge at first instance.

Ng Chye Mong Pte Ltd v Public Prosecutor
(FT, March 22)

The appellant Singapore company attached counterfeit Hennessy labels to 17,246 bottles of brandy. The bottles were ordered to be destroyed by a Singapore magistrate despite the company's application for an examination of the actual contents of the bottles to prove their genuineness. In allowing the company's appeal, the Judicial Commission stated that section 69D of the Trade Marks Act provided that any person who sold goods with a counterfeit trade mark was guilty of an offence. Section 69B provided that a person counterfeited a trade mark if without the consent of the proprietor he made a mark calculated to deceive. The fundamental nature of a trade mark *was that it was a symbol of the* origin of the goods; a trade mark applied to genuine goods without the proprietor's consent was not a counterfeit trade mark.

Regina v Panel on Takeovers and Mergers, Ex parte Guinness plc
(FT, March 31)

On September 2 1987, the Panel on Takeovers and *Mergers* concluded that Guinness had infringed rule 11.1 of the City Code on Takeovers in that there *had existed a concert party* between Guinness and a Swiss finance company, Pipetec. That decision was reached despite two applications by Guinness for an adjournment. In refusing applications for judicial review on the grounds of an infringement of natural justice because of the panel's refusal to adjourn, the Divisional Court stated that the panel had weighed in the balance all proper considerations, including *the kind and scope of* available evidence, and it approached those considerations with the right legal principles in mind.

Allied Arab Bank Ltd v *Hajjar*
(FT, March 16)

In the instant case, on the assumed facts, the bank claimed that the defendants had dishonestly conspired to defraud the bank of its right to receive money from the members of the UTC group. In striking out the pleading in its entirety, Mr Justice Hirst stated that the predominant purpose of the civil tort of conspiracy had to be injury to the plaintiff and not, *as in the* present case, the self interest of the defendants (*Lonrho v Shell (No 2) [1982] AC 173*). With regard to the claim in constructive trust, the claim had to specify knowing or dealing with trust property or knowing assistance in a trustee's fraudulent design. Although the bank's present plea made no differentiation between the two, the bank was entitled to amend its pleadings as its difficulties were *readily understandable where* companies could be bought in other jurisdictions and money moved around the world at the press of a button.

El Du Pont De Nemours & Co v Agnew & *Others*
(FT, March 29)

The US plaintiffs brought proceedings in the UK under their product liability *insurance* against the defendant underwriters for indemnification which would cover an award of punitive damages made *against* them. In Illinois, where the tort was committed, the state law provided that indemnity was not to be paid for the award of such damages, and the defendants brought proceedings there for a declaration that they were not liable to pay under the policies. In upholding the judge's decision refusing the plaintiffs an injunction to restrain the defendants from pursuing the Illinois action, the *Court of Appeal stated that if* such an injunction were granted, the English court would be arrogating to itself the power to resolve the precise dispute between the parties, namely whether the English or Illinois court was the natural forum to hear the action.

Vasili Shelgunov
(FT, March 18)

RSC Order 22 rule 3 provided that a plaintiff might accept money paid into court within 21 days after receipt of notice of payment in satisfaction of the action. Admiralty actions *in rem* were expressly excluded by Order 75 rule 24. Costs were within the court's discretion. It was highly desirable that *an action in personam* commenced in the Commercial Court or the Admiralty Court should have the same rules concerning payments in and out and that there should be certainty as to the time within which an offer to settle was accepted or rejected, Mr Justice Sheen stated. The present action by the cargo owners was *in personam* and could have commenced in either court. While *they had only accepted the defendants'* payment on the 20th day after it had been made, they were nevertheless entitled to an order for their costs up to that date.

Marc Rich & Co Ltd v Tourloti *Compania Naviera SA*
(FT, March 25)

Clause 36 of a charterparty provided that demurrage was to be paid *excepting for, inter alios,* fire, floods . . . and every other unavoidable hindrances which may prevent . . . discharging . . . The vessel's discharge was held up on arrival at Bombay because of congestion and laytime expired while it waited for a berth. It was argued that that congestion was an unavoidable hindrance within the excepting clause. In allowing the owners' appeal against an order reducing the *amount of* demurrage, the Court of Appeal stated that it was established law that when once a vessel was on demurrage, no exception would operate to prevent demurrage continuing to be payable, unless the exceptions clause was clearly worded so as to have that effect (*The Dias [1978] 1 WLR 261*).

Re European Home *Products plc*
(FT, March 23)

In a circular to shareholders which proposed the cancellation of a share premium account in view of the goodwill of approximately £38.5m, it subsequently emerged that that figure was inaccurate. A circular was then sent to the shareholders that the directors still intended to seek the court's sanction of the cancellation of the account in accor*dance with the special resolution* passed on the basis of the earlier figure. In its discretion the court confirmed the cancellation, Mervyn Davies J stating that although such information ought to be reliable, the shareholders had been notified of the mistake and none had opposed the order. Moreover no creditors had been prejudiced thereby.

This concludes the digest of cases reported in the Hilary Term. Previous parts appeared on April 5, 8 and 12.

The law reports will resume on April 15.

Aviva Golden

Television/Christopher Dunkley

Fings are just wot they used t'be

In all aspects of life there is a powerful tendency to insist that *"Fings ain't wot they used t'be"*. If education had really deteriorated at the rate that successive generations of Cassandras have maintained, there would by now be nobody left who could read or write at all. A wonderfully enlightening book by Geoffrey Pearson called "Hooligan: A History of Respectable Fears" proves with chapter and verse that people have always believed British society was calm and peaceful in their young day, and that matters have subsequently gone to the dogs; every new generation believes the "mugger" (Ted, hooligan, scuttler, cutpurse) is a new and sinister phenomenon.

Much the same applies to television comedy. Indeed, this very column has often declared that some particular new comedy could not stand comparison with the giants of old. But with *Steptoe And Son* now back on screen and, these days, the capacity to watch one's own video recordings of "classic" comedies lifted from those anniversary occasions so beloved of television, it is now possible as never before to make direct comparisons.

Sure enough, when you can experience the real thing rather than rose-tinted memories, the old material seems less impressive. What is more, when you jot down a list of today's offerings and consider not only the average quality but the diversity, it becomes much more difficult to sustain the belief that fings were so much better in the good old days.

The first thing to realise is that there is much more comedy – as there is much more of everything else on television – today than 10 years ago, never mind 20. Since 1978 not only has a new channel appeared, but the number of hours transmitted on all channels has increased. The Cassandras would have us believe that more means worse and the standard must therefore have fallen, yet the evidence suggests otherwise.

True, there are still a lot of embarrassingly poor situation comedies around. On Monday ITV began another batch of *All In Good Faith*, in which Richard Briers plays a drippy vicar, and the laughs are supposed to come from exchanges such as this:

"Who was it said 'Only connect'?"

"The gas board?" and this:

"I thought there were designated sites".

"Dessicated what?"

Moreover there is still a distressingly large collection of those tedious comedy series based upon endless permutations of domestic relationships: *My Husband And I, Aren't You The Wife, You Must Be The Husband, Hang On A Second Doesn't That Make You The Daughter* and so on.

But it was ever thus, and currently some good work is being done even here. In ITV's recent series from Central, *A Kind Of Living*, Paul Makin's idiosyncratic line in dialogue was splendidly boosted by the casting of Richard Griffiths and Frances de la Tour. There were some good twists on fairly well-worn material (mainly mother-in-law jokes) in Terence Frisby's TVS series *That's Love too*, and the casting was again spot-on for the material: Jimmy Mulville and Diana Hardcastle as the husband and wife with a realistically complex relationship.

There are plenty of other conventional odds and ends knocking about the schedules, and some new fashioned "comedies" which produce glazed eyes rather than laughter. How Channel 4 ever came to accept *Mr Jolly Lives Next Door* as part of the "Comic Strip Presents" series is beyond understanding: even when Adrian Edmondson and Rik Mayall were at the London Comic Strip, their willies-and-vomit routine was less funny than they thought it was, and, now that we have seen it so often, tedium is added to the embarrassment the onlooker always felt on their behalf.

But having said all that, consider the sort of diversity in television comedy that is now available to us. BBC2's *Cabaret At The Jongleurs* and ITV's *Friday Night Live* seem to have found an inexhaustible supply of new young stand-up comedians. The format may not be fundamentally different from *The Wheeltappers And Shunters Social Club* or *The Comedians* of the early seventies, but the tone is thoroughly different, and some of the acts are, to say the least, extremely unusual. Has anybody *ever* seen anyone like Arloe Barloe who inhabits his clothes like a hyperactive tortoise?

Perhaps the biggest difference is the number of women involved. Admittedly there are some on the "alternative" television circuit who seem to be there more because they are women than because they are unusually talented, but they are a small minority. In mainstream television, and entirely on merit, are already have Victoria Wood, Julie Walters, Ruby Wax (at her funniest when most outrageous) and, above all, French and Saunders who keep getting better and better: 1978 had nothing to compare with this array.

French and Saunders: getting better and better

Add in the "history" sitcoms of the first generation of new wave comedians, *Blackadder* with Rowan Atkinson, the deserving winner of this year's BAFTA comedy award, and the Roman Britain saga, *Chelmsford 123*, written by Rory McGrath and Jimmy Mulville (late of *Who Dares Wins*) who also star in it, and - remembering that the conventional material is still with us - you are beginning to see a diversity which the 1978 viewer really could not match.

The variety expands further with such uncategorisable series as ITV's *Andy Capp* which brings the Daily Mirror comic strip to the screen with remarkable faithfulness and accuracy, and *Hot Metal* - ITV again - which has its work cut out parodying the excesses of the tabloid press, yet succeeds, sometimes hilariously. This week's episode opened with the editor on the telephone saying mournfully "Yes, we fully accept now that your mother was not a witch...Yes, your royal highness..."

Best of all among the unconventional new sitcoms has been ITV's *News At 12*, a hilarious parody of the flagship news programmes in which schoolboy Kevin Doyle, played with masterly panache by young Ewan Phillips, has been reporting on life at No 13 Tindale Close entirely in the language and style of television news. The series has been restricted to children's television at 4.45, but since it is greatly superior to *The Growing Pains of Adrian Mole* it deserves a better slot with a bigger potential audience.

Finally we seem to have more one-offs today than ever before. Pastiche silent comedy is not to my taste, but Eric Sykes' *Mr H. Is Late* certainly had a most impressive (and nearly endless) cast list, and Channel 4's one-man show *John Sessions*, screened on New Year's day, was very much to my taste. Sessions is proving the most talented member of the new wave, with flair not only as comedian and writer, which his colleagues all seem to have too, but also as serious actor and impressionist. If there is any justice, this extraordinary one-man effort should win awards somewhere.

The drama sector of the comedy spectrum has been well sustained this season by ITV's excellent adaptation of David Lodge's *Small World*, and the BBC's superb second series of *A Very Peculiar Practice* which provided a warning about the philistine attitude of the present government towards academic research that was at least as powerful as Sir George Porter's in *The Richard Dimbleby Lecture* on Sunday. Nothing is quite as effective as comedy in such matters: imagine Mr Tebbit trying to do his bovver boy act against comedy!

If in 1988 fings ain't wot they used t'be in television comedy, what is it that is missing? In the sixties and seventies there was a clear run through such less crowded schedules for a *Steptoe* or a *Till Death* to establish itself as the nation's top comedy; and, in Morecambe and Wise, a duo which attracted not only ratings but affection. Nobody has managed that since, and hopes that the mantle might pass to Little and Large or Cannon and Ball, which always did look forlorn, now look out of the question. There was also *Monty Python's Flying Circus* and it is true that there is nothing as outstandingly original as that today.

Yet the diversity now is greater than ever before (*Spitting Image* must be due back soon), the quantity is greater than ever before, and the average age of the participants is probably lower than ever before. Those are hardly grounds for pessimism.

Faust, Part 2/Lyric, Hammersmith

Martin Hoyle

The brave Lyric, Hammersmith, is now presenting both parts of Goethe's sprawling, obsessive, near-unperformable masterpiece, in the nearest complete production this country has seen this century (a Glasgow version some years ago was abridged). The effect is cumulative. If one reserved judgement after Part 1, the final curtain fell on a bold, imaginative and devoted enterprise.

The strength of David Freeman's production lies in its unabashed confrontation of such problems in staging as characters who turn into bottles or vanish in a ball of fire. Such directions are robustly ignored (no great loss) or approximated (plenty of startling firethrowing). The hermaphroditic homunculus in its glass ball is done extremely well by the diminutive Linda Kerr Scott, ex-Théâtre de la Complicité (a nifty trundler but not too audible through the Perspex), and Part 2 boasts one splendid piece of theatrical spectacle when the stage suddenly spouts more fountains than a Liberace TV special, and pagan nymphs and monsters disport themselves with the occasional splash on to the front stalls.

Mr Freeman knows when to follow the stage directions with profit: the medieval backdrop depicts a Disney-like fairy-tale castle, its gothic pinnacles and stepped gables bespeaking northern Europe. Indeed, the whole Faust-Helen of Troy marriage, with Simon Callow bearded like the pard and looking like a make-believe courtier from Pirandello's *Henry IV*, increases the excitement with carefully choreographed movements and a dazzling battery of lights to embody the sun that destroys their child, the Icarus-like Euphorion.

After the interval Mr Callow, grey and moustached, looks like Arthur Balfour in his wing-collar and morning suit, and the evil war is fought in World War 1 khaki. Tension flags with the bitter twist to the Philemon and Baucis fable, and Mr Callow, now impersonating the aged Leonardo in flowing locks and beard, seems slightly unsure how to enliven photocratic land-reclamation. Pastel-robed angels dropping rosepetals recall Part 1's queasier moments; but the final chorus of young actors in their everyday clothes, holding flickering candles over the dead Faust, neatly rounds off the production that began with them discussing their art.

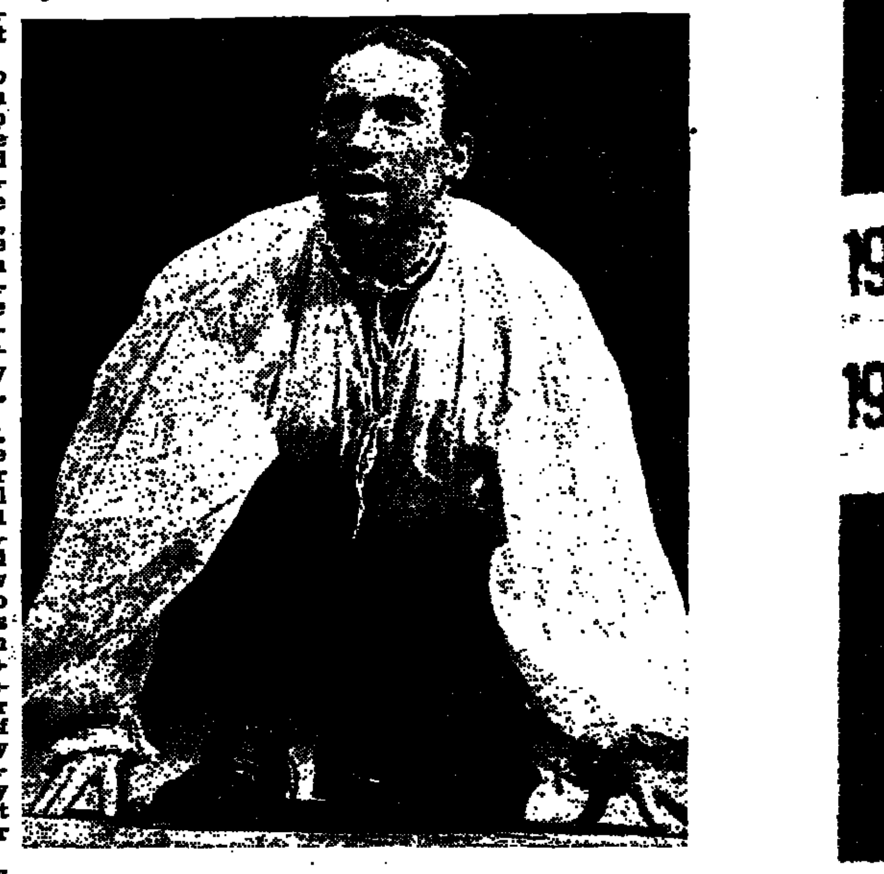
In short, the production nobly catches the original's mixed moods, both banal and *profound*, spiritual and frivolous. The unifying factors are the arched climbing-frame that spans centre-stage, providing a climbing-frame for grotesque capers when necessary, and the busy activity with which a dozen players present Renaissance courts, battlefields, carnivals, witches' sabbaths and that pagan darkling *plain whose* Hellenic monsters disgust even Mephistopheles.

The choric speaking is variable, from the excellent urgency of Helen's handmaids (oddly capturing the ominous mood of T.S. Eliot's women of Canterbury) to slightly stilted tones unconventional religiosity; and I have reservations *about the* ceaseless physical bustle that so often evokes warming-up exercises for acting students.

James Bond fans can not only see their idol in West End O'Neill but catch Miss Moneypenny in Goethe in Hammersmith. Caroline Bliss is a Helen of Troy aptly beautiful, unexpectedly incisive, and with a tragic aura all her own. Peter Lindford's Mephistopheles is an achievement of immense intelligence; voice, bodily agility and facial mobility almost make him a Byronic hero, at times a sceptical humanist, at times the Marlovian outsider *recognising* and longing for God. (That is, perhaps, the essence of the devil.)

Simon Callow speaks lines as few of his colleagues at the big two national companies can, not merely technically flawless but responding with emotional generosity. As yet his Faust lacks a centre, rather like the play; but this is an abundant performance.

For Nigel Osborne's music there is nothing but praise; perfectly judged as to quality and quantity, haunting, ominous or lyrical, it is gratefully written for voice and percussion (John O'Hara). For all its unevenness this is an impressive achievement. By no means such an effortful marathon as expected (Part 2 lasted a mere 3½ hours, not 4½ as an excitable colleague claimed on independent radio), it is a gesture of magnificent courage from the financially-beleaguered Lyric and deserves utmost success.



Simon Callow: an abundant performance

Tilson Thomas/Barbican Hall

Richard Fairman

Over the weekend Michael Tilson Thomas and the London Symphony Orchestra seem to have forged a new and exciting union. A partnership which gave the impression of still being in a fairly lukewarm formative stage on Thursday suddenly set the sparks flying at last night's concert with playing of white-hot intensity.

The second half – a blistering performance of Strauss's *Ein Heldenleben* – was all that one might hope this orchestra and its prospective Principal Conductor will achieve in their years together. Everything about it, from the attacking style of the playing to its utterly distinctive, brilliant and brassy sound, fused into a single vision with the sort of conviction that only happens when conductor and orchestra are working as one.

The most memorable example of this recently was at the Proms last season, when Yansons and the Oslo Philharmonic played the same work. *It may be that Tilson* Thomas is the less individual Strauss interpreter of the two. But where Yansons was fascinating and infuriating by turns, the *Heldenleben* that we heard last night always kept within the bounds of the score, however stirring the impact of its interpretative ideas.

For both conductors this is a young man's music. The bracing rhythmic panache with which Tilson Thomas set his hero striding forwards set the tone for the whole piece: bitingly incisive critics, a battle scene of blazing force, and only the final scene wanting something of the proper autumnal, Straussian glow.

The Concerto of the evening worked equally at extremes, though with less success. Stephen Hough's view of the Third Beethoven Concerto is one of strong contrasts not always integrated with sufficient care. The first movement cadenza, starting loud and metallic only to subside into a barely audible *pianissimo*, was typical. There is a character*ful performance in there, if only* the elements can be brought successfully together.

Contemporary art/New York

Karina Robinson

Two main themes currently dominate the contemporary art scene in New York: one is appropriation, the other is the power of the media. Appropriation attempts to undermine the notion of originality. Images out of mass culture are adopted and then given an added twist. There are photographs of photographs and blatant copies of figures from a Renaissance picture. These are then juxtaposed against images, out of their original context, which lead the viewer to question the presupposed significance.

Bo Gerard, the deconstructivist philosopher, has inspired many of the artists, especially in his ideas about the media. That American art is profoundly preoccupied with the effects of television and especially advertising seems natural considering the power of the industry in the US.

There are three main areas in which to view contemporary art in New York : the East Village, Soho and around 57th street. The *East Village had a reputation as* the most avant-garde area, but over the last year and a half it has lost its place to Soho. Nonetheless, there have been several exhibitions of interest among the derelict buildings.

At Greathouse, Kathe Burkhart's Liz Taylor Series was reminiscent of comic book art. She has placed the actress in violent situations with juxtaposed curses. Her "language of angry resistance" is directed against oppression, specifically that of women. It is also an attack on the media's influence, which made the actress a role model to many young Americans. The style is reminiscent of Pop Art but fails to deliver a new message.

The satirical dimensions of "children's art" have been used to a lesser degree by Rodney Alan Greenplat in his coloured cardboard cut-outs at Gracie Mansion. The atmosphere of a nursery prevails and one wonders where Nanny is. His sense of childish fun – art as visual amusement rather than awe-struck worship – lends itself well to the mug and T-shirt souvenirs for sale at the entrance.

This commercial outlook is a far cry from Mary Jo Vath's work. In hearkening back to more traditional painting, the artist in a show at P.P.O.W. confined herself to 12" by 12" canvasses where objects or figures in the foreground stand out from dark, Renaissance-style backgrounds. Especially noteworthy was a painting of an exquisite mirror against sombre scenery. The jagged mountain peaks are the only straight lines in the composition and the contrast guides the eye inside the frame.

The atmosphere is decidedly different in Soho (nothing to do with our Soho, the name being an abbreviation of South Houston) where every second building seems to house dozens of galleries.

One of the leading galleries is Mary Boone, where David Salle has recently been on show. He embodies the strong appropriation trend in the contemporary art scene. His paintings are composed of many images juxtaposed in a collage-like manner. The dialogue between the different parts allows for a great deal of intellectualising about his themes, thus allowing free rein to art critics usually receptive to his work. Other than the media, his works deal with the exploitation of women. Rather like the Marquis de Sade's works, where titillation usurps the apparently serious function, Salle's women seem too pornographic to be a statement against pornography.

At the Sonnabend Gallery Ashley Bickerton used a totally different medium to laugh at the brainwashing effect of advertising. His contraptions resemble pinball machines. Bits of poetry sprinkle the sides, while labels from different products cover the front. In his amusing self-portrait, the artist becomes the products he uses. Thus we have labels from the beer he drinks, the bread he eats, the clothes he wears and even more intimate belongings. The overall effect is clever without being dishonest.

At the Curt Marcus Gallery, Judith Shea put the current fashion for appropriation to good use. She assimilated an earlier style and yet made it an entirely original statement. Her figurative sculptures are generally bronze and may at fist sight seem purely classical. But their age is betrayed by anachronistic touches as well as theatrical configurations. Her modern bronze torso with a Gaul's head strapped to the back like a knapsack is one of the most representative works in the exhibition. Shea has the courage to be romantic without falling into sentimentality.

The 57th street area clearly shows that art is big money as the floor-length mink coats float in and out of the galleries. The *international aspect* of the art market was exemplified by the British painter Maurice Cockrill at Bernard Jacobson. However, strong the transatlantic exchange may be, the preoccupations of European artists are very different from their US counterparts. Cockrill's figurative painting is a mixture ofthe barbaric and the lyrical. In brutal encounters between the two sexes, he addresses mythological and religious themes

At the Pace Gallery, George Condo demonstrates the perils of *appropriation*. His work has assimilated so many others from Picasso to Gorky, that his paintings seem but facile rehashes of those artists. The appropriator has become appropriated. His apparent mastery of his craft disguises much, but it seems obvious that he is more intent on giving the collector his money's worth than on any artistic integrity.

Appropriation is not the only game in town. Abstract Expressionism still holds sway at the David McKee Gallery. There, *Jake Bertholt's* powerful canvases, which he is known to rework for up to a year are variations on a theme.

To finish up a tour of any contemporary art scene it is always advisable to see something one cannot possibly understand. An incomprehensible exhibition lends perspective to what one has seen. For this purpose, I recommend the Video Art exhibition at the Whitney Museum branch at Equitable Centre.

Arts Guide

April 8-14

Theatre

NEW YORK

Fences (46th Street). August Wilson hit a home-run, this year's Pulitzer Prize, with the powerful tale of an old baseball player raising a family in an industrial city in the 1950s, trying to improve their lot but dogged by his own failings. (221 1211).

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline. (239 6262).

A Chorus Line (Shubert). The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Les Miserables (Broadway). Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200).

Starlight Express (Gershwin). Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and silly trumped-up plot. (586 6510).

Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. But it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably British. (947 0033).

WASHINGTON

The Search for Signs of Intelligent Life in the Universe (Eisenhower). Lily Tomlin repeats her Tony-award winning solo performance of the crazy people who inhabit her funny and strange imagination. One major segment explores the women's movement over the past decade. Ends June 26. (254 3670)

The Mystery of Edwin Drood (Kennedy Centre Opera House). The Broadway hit musical based on Dickens' unfinished novel features the music of Rupert Holmes for which the pop composer won a Tony. Ends May 1. (254 3770).

TOKYO

The Wars of the Roses (Tokyo Globe Theatre, Shin-Okubo). The English Shakespeare Company open Tokyo's newest theatre with their highly acclaimed production of Shakespeare's history plays, the first complete cycle since Peter Hall's in the mid 1960s. The theatre is inspired by the Elizabethan original, but there is nothing academic or fustian about either its striking pink-walled exterior or its intimate auditorium and thrust stage. It was designed by Arata Isozaki, winner of the Royal Institute of British Architects' gold medal in 1986. Once the darling of the avant-garde, Isozaki's recent designs have favoured a return to tradition, but are always served up with 1980s panache. In English. (343 4751)

Hanshin (Theatre Apple, Shinjuku) A recent survey indicated that Yume no Yuminsha is the most popular theatre group among today's young generation. Hideki Noda's productions are complex fantasies with a strong vein of surrealist humour, rather as if Monty Python were invited to attend a traditional Japanese street festival. Noda himself is a high-energy comic performer of great charm and the entire company is skilled in song, dance and acrobatics. Hanshin (half-god) is about Siamese twins and attempts to separate them, but the plot is less important than the outpouring of visual invention. This is Total Theatre at its most exuberant.

West Side Story (Koseinenkin Hall). Three decades on, Leonard Bernstein's score and Jerome Robbins' choreography are as vibrant and dynamic as ever. This production features the cast from a recent revival on Broadway. In English. Ends Apr 13. (407 8155).

Big River (Aoyama Theatre). Musical version of Huckleberry Finn. Jim is played by Ron Richardson, from the Broadway production, who has learnt Japanese for his role. The songs, however, are sung in English – so Hiroyuki Sanada (Huck) and the rest of the Japanese cast have also faced something of a challenge in preparing for the performances. (797 5678)

Yamato Takeru (Shimbashi Enbujo). This staggeringly successful "super kabuki" production by the kabuki theatre's greatest showman, Ichikawa Ennosuke, has already broken all the records that a new show can possibly break in Japan. Its sheer size and spectacle put it in the same category as the most extravagant Broadway musical. The story is based on one of Japan's oldest legends but is less important than the extrovert and highly theatrical bag of tricks that Ennosuke has concocted to make kabuki more appealing to a generation that has grown up on rock music and action movies. Buy the English programme if you want to follow the twists and turns of the plot. (541 2211).

Kabuki (Kabuki-za). Kana Dehon Chushingura – the story of the 47 loyal retainers, one of the most famous events in Japanese history, made into countless plays, books and films. In two parts, at 11am and 4pm. Excellent English earphone commentary. (541 3131).

LONDON

The Best of Friends (Apollo). John Gielgud makes probably his last appearance on the London stage as Sir Sydney Cockerell, a museum curator and friend of Shaw (Ray McAnally) and a remarkable abbess (Rosemary Harris). (437 2663, CC 434 3598)

South Pacific (Prince of Wales). Average, traditional revival of the great Rodgers and Hammerstein musical, Gemma Craven failing to wash the baritonal Emile Belcourt out of her hair.

Shirley Valentine (Vaudeville). Pauline Collins in fine and funny monodrama by Willy Russell of liberation for a Liverpool housewife on Corfu. Shades of Ibsen's Nora and Beckett's Winnie, with jokes. (836 9987, CC 379 4444)

The Phantom of the Opera (Her Majesty's). Spectacular, emotionally nourishing new musical by Andrew Lloyd Webber. (839 2244, CC379 6131/240 7200).

Follies (Shaftesbury). Stunning revival, directed by Mike Ockrent and designed by Maria Bjornson, of Sondheim's 1971 musical in which poisoned marriages nearly undermine an old burlesque reunion in a doomed theatre. (379 5399).

Serious Money (Wyndham's). Transfer from Royal Court of Caryl Churchill's slick City of London comedy for champagne-swilling yuppies: how the Big Bang led to class tumult and barrow-boy dealings on the Stock Exchange. (836 3028, CC 379 6565).

Back with a Vengeance (Strand). Barry Humphries, indisputably the outstanding vaudevillian of the age, has extended his triumphant London Season to July 9. Dame Edna Everage has now earned full immunity to good taste, while the bibulous diplomat Sir Les Patterson touches new heights of degradation. (836 2660/4143)

Hapgood (Aldwych). New Tom Stoppard mixes espionage, romance and higher physics in a splendidly taut and clever entertainment. Felicity Kendal is the eponymous intelligence agent, Robert Rees and Nigel Hawthorne in elegant support. Stoppardesque double meanings and double identities abound. (836 6404, CC 379 6233)

Saleroom/Susan Moore

Star treatise soars

An unique 13th century astronomical treatise by the Galileo of Islam, Nasir al-Din Tusi, was sold at Christie's yesterday for £104,500. Finished on January 4, 1274, it is the earliest known text, and the master copy used by generations of scientists, astronomers and mathematicians working at the great observatory and library Tusi established at Maraghah in Persia in 1259. It was acquired by London dealers Eskenazi for a foreign client.

The sale, of Islamic, Asian and Indian manuscripts and works of art, provided a number of surprises. Not least was the £13,200 paid for an unusual but undistinguished French portrait of Abdul Rahman Agha, Envoy of Tripoli, signed and with its original frame, estimated at £1,500-2,500. More distinguished was the late 16th century Isnik dish decorated with tulip, hyacinth, peony and carnation sprays, which went for £33,000 (estimate £18-25,000).

A Persian miniature Qur'an 1793-94 tripled its estimate by selling for £14,300. It went to the Kahalili Gallery, which also acquired an early 14th century enamelled Mamluk glass bottle for £49,500 (estimate £50-70,000).

The popularity of Gandhara figures continues. A substantial £88,000 was paid by an anonymous bidder for an unusually large grey schist stone standing Maitreya, against an estimate of £30-50,000. The auction totalled £649,957 with 16 per cent unsold.

Christie's held one of its most successful clock and watches sales in London yesterday, realising a total of £297,379 with 17 per cent bought in. Top lot, surprisingly doubling its estimate, was a Charles II ebony *striking bracket* clock made by Joseph Knibb, a poor country cousin of the London maker's more complicated and better quality clocks. The subject of fierce trade competition, it went to London dealers Hymore Hodson for £35,200.

A George III mahogany longcase clock made by Vulliamy, London, a maker undergoing reappraisal, also topped its lower estimate by selling to a private collector for £26,400. A similar piece was sold in January in a provincial sale for £17,500. A private collector paid £33,000 (estimate £22-26,000) for an ormolu musical automaton bracket clock made for the Chinese market.

Watches proved far more difficult to move, with examples by Breguet (in poor condition) and Nicole Nielsen bought in. Even at Geneva auctioneers Habsburg Feldman, which claimed to top its own world record for a watch sale on Monday, a finer Smith & Son watch made by Nicole Nielsen failed to sell. There, however, it was the wristwatches that stole the show. A 1925 chronograph by Patek Philippe et Cie, doubling its estimate by realising $147,000, was one of a number of watches by the Geneva maker to sell comfortably above estimate. The auction totalled $4.1 million.

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The pitfalls of targeting

THE THATCHER Government is attempting to redraw the boundaries of the welfare state. In a series of speeches (the most recent was delivered this week by Mr John Major, Chief Secretary to the Treasury), ministers have argued that social security benefits need to be better targeted. A culture of dependency, they think, can be dismantled only if state assistance is restricted to the genuinely needy. Others should make their own provision for life's vicissitudes.

The targeting philosophy provides a rationale for many social security initiatives of recent years, including the severing of the link between earnings and the old-age pension and the freezing of child benefit, a universal payment received by all families with children, regardless of their means. It forms the intellectual bedrock of this week's social security changes. A controversial new rule, for example, is that pensioners with more than £6,000 of capital should lose all entitlement to housing benefit.

At first sight, targeting appears to make eminent sense. Britain already spends huge sums on social security benefits: £48bn has been set aside for 1988/89, the equivalent of roughly 13 per cent of gross domestic product. The more rigorous isolation of the really poor from the rest of the community, runs the argument, is paving the way for significant real cuts in the social security budget.

Means-testing

Targeting indisputably offers budgetary savings in the short term. But that benefit has to be weighed against a number of quite severe disadvantages. In the first place, targeting necessarily involves an extension of means-testing. You cannot withdraw benefits as income rises without prying very closely into the circumstances of claimants. This involves heavy administrative costs and a degree of stigmatisation of the poor. It may also mean that much poverty goes unrelieved. The take-up of means-tested benefits is notoriously low: around 45 per cent of the old family income supplement, for example, went unclaimed. The proud poor are equally likely to shun the new family credit.

More worrying still is the effect of targeting on incentives to save and work. Under present rules, people approaching retirement have an incentive to blow small capital sums on holidays or new cars. If they do not, they will qualify for less benefits; the effect of targeting here is to penalise responsible individuals who forgo consumption during their working years in an attempt to increase their security and independence in old age.

Underclass

The unemployed who seek part-time work face even harsher disincentives. In 1948, the socialist Attlee administration allowed a jobless couple to earn up to 75 per cent of their national assistance before their entitlement to benefit was affected. Today a Government committed to enterprise allows an unemployed couple to earn only 19 per cent of their benefit – a derisory £10 a week between them – before withdrawing state assistance. Yet structural changes in the economy have increased the importance of part-time work and the likelihood that people will have to rely on a mixture of market earnings and social security benefits.

The impact of targeting on incentives is inescapable. The solution often hinted at – the integration of the tax and benefits systems – would not help because the problem is caused, not by tax as such, but by the rapid withdrawal of benefits as income rises. You cannot put a ring fence round the very poor without simultaneously making it harder for them to help themselves. There is a very real risk that increased targeting of benefits, by removing the incentives of the low paid, will institutionalise an underclass.

The ideal solution might be to pay everybody an unconditional "social dividend" sufficient to meet subsistence needs. The problem is that the tax rates necessary to finance it would be prohibitive. An escape from means-testing is thus not a practical possibility. But the Government should not make a virtue out of what is an unfortunate necessity. It should continue to rely on a mixture of reliefs, including some universal benefits, and at the same time tackle the underlying causes of poverty, which include inadequate pensions and high unemployment.

The superpowers and Afghanistan

TO CALL the agreement on Afghanistan which is to be signed tomorrow in Geneva a "peace agreement" is certainly a grotesque euphemism. It is a very simple quid pro quo: the Communist Government in Kabul agrees that Soviet forces should withdraw, while Pakistan agrees to stop further external aid from reaching the anti-Communist *mujahidin*. The *mujahidin* themselves are parties to it, have not recognised the Communist Government, and have not agreed to stop fighting. Conversely the Communist leader, Dr Najibullah, has not agreed to step down. The war will go on, but henceforth it will be a war between Afghans.

Of course that is not an ideal outcome. It would be much preferable to have a ceasefire, an agreed provisional government, guarantees for the safe return of the refugees, and then the free choice of a new, independent government by the entire Afghan people. Pakistan's reluctance to sign an agreement with a regime which owes its existence to the Soviet invasion is quite understandable, and its preference for having an interim government in place was undoubtedly right. Yet the irony is that until the Washington summit last December it was the Russians who were insisting that they could not withdraw until an agreed interim government was in place, while Pakistan and the US were treating this as an unacceptable pretext for delaying the Soviet withdrawal. For them to take up this pretext and enforce it themselves, once Moscow had dropped it, was a position soon seen to be untenable either in logic or in common sense.

US demand

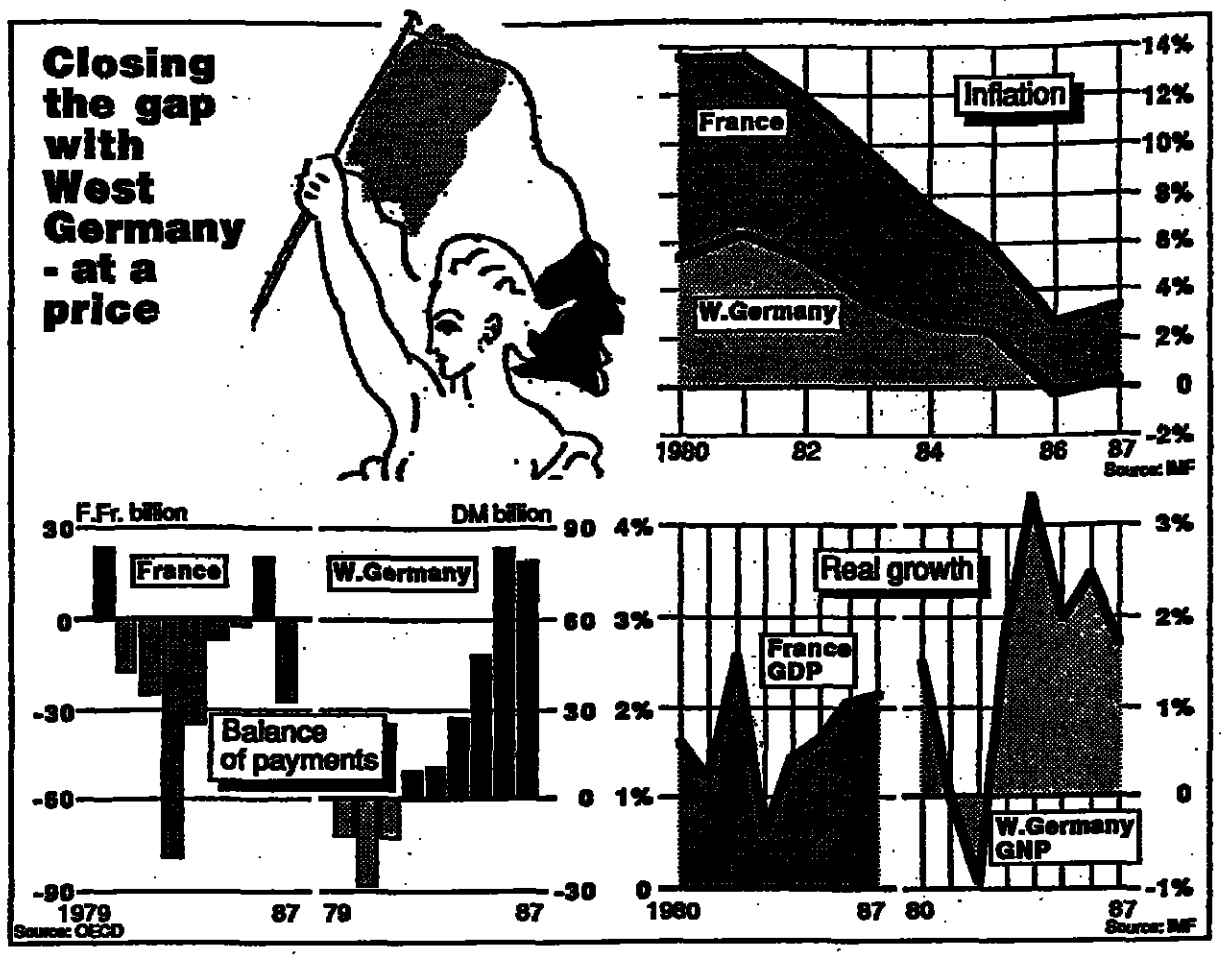
The US demand for "symmetry" between its own aid to the *mujahidin* and continued Soviet aid to the Kabul regime after withdrawal was more logical in the abstract but was introduced very late in the day. Through all the years that the negotiations have dragged on the clear assumption was that the agreement involved a cessation of Western aid to the *mujahidin* and that the quid pro quo for this was the Soviet withdrawal itself. That the Russians have agreed to throw in "symmetry" as well suggests either a remarkable confidence in the *viability of the* regime they are leaving behind them or – and this now seems the most plausible interpretation – simply a desperation to get out without further delay at any price.

Positive value

Ostensibly the agreement reached between the superpowers is for "positive symmetry," meaning that both sides would continue supplying their respective clients. Since most if not all US aid goes through Pakistan it is hard to see how this can be reconciled with Pakistan's part of the bargain. Asked to explain this Mr Shultz would say only: "I'm not going to step into that hole." The explanation may be that there is some sort of informal understanding that both sides will restock their clients' arsenals as heavily as possible before May 15 and then leave off, but reserving the right to resume if they see signs that the other has done so. If so there is obviously a danger that the agreement could break down through cheating, or through unjustified or exaggerated suspicion of cheating. Both superpowers will have to guard against that.

Unsatisfactory as all these points may be, none of them should be allowed to outweigh the enormous positive value of the Soviet decision to withdraw. Like the Americans in Vietnam, the Russians have been forced to recognise that they cannot use military power to remodel the politics of a Third World country in accordance with their own ideology. Like them, too, they are leaving behind a country appallingly and perhaps permanently damaged, and a war which will no doubt continue for a "decent interval" before the full dimensions of their defeat become apparent. It is probably better not to rub their noses in it – though it is to be hoped that the absurdity of awarding the Nobel Peace Prize to Dr Kissinger and Mr Le Duc Tho in 1973 will not be repeated. But the fact that it is happening is none the less to be greeted with relief, especially if it means, as it should, that such tragedies are less likely to be repeated elsewhere in the future.

Ian Davidson examines the economic consensus that underlies France's presidential election campaigns



A gloomy meeting of minds

THE STRANGEST but most interesting thing about the French presidential election, is that everything is back-to-front or inside-out, as if it were taking place on the other side of the looking glass. Where you expect conflict, you find consensus, and vice versa; where you expect uncertainty, you find certainty, and the other way round as well. This peculiarity makes it very difficult to say, or even to know, what the *election is all about*.

In most countries, the whole point of an election campaign is that it is designed to provide a clear answer to a simple question: who is going to be the winner? Once you get the answer to that question, you have a pretty good idea of what it will mean in policy terms. Not in France, or at least not in 1988.

On all sides, it is now assumed that President François Mitterrand will be a clear winner. Moreover it is coming to be assumed, with growing confidence, that the campaign of Mr Jacques Chirac, Prime Minister and leader of the right-wing neo-Gaullist RPR party, has conclusively overtaken that of Mr Raymond Barre, former Prime Minister under President Valéry Giscard d'Estaing and until recently Mr Mitterrand's chief challenger on the right.

Barring some last-minute change of fortune, therefore, the entire French political establishment has come to assume, not merely that Mr Mitterrand will easily come top in the first round *of voting on April 24, but also that he* will be victorious in a run-off against Mr Chirac in the second round on May 8. What is not so clear is what Mr Mitterrand's victory will mean in practice.

Ostensibly, it ought to imply a vic*tory for socialism, since Mr Mitterrand* is the man who built up the Socialist Party to be the biggest in France, and he is its standard-bearer today. Yet in reality the manifesto of Mr Mitterrand, and the proposals of the Socialist Party, are a far cry from the radical plans for *the restructuring of society which they* put forward before their victories in the 1981 presidential and general elections; so far, indeed, that it is not entirely clear in what sense they still deserve to be called "socialist."

To be sure, the tone of Mr Mitterrand's *"Letter" is unmistakably much* more left-of-centre than the manifestos of Mr Chirac or Mr Barre. He expresses more concern for those who, because of the rise in unemployment and gaps in the protection offered by the social security system, have become the "new *poor." He puts more emphasis* on the need for greater social justice and he is more worried over discrimination against women and against immigrants. Finally, he puts more stress on the case for increased aid to developing countries crippled by the debt crisis. Deliberately, Mr Mitterrand has adopted a "caring" tone.

Tone is, of course, an important indicator of policy. Indeed, it may be the most appropriate indicator of presidential policy under the ambiguous constitutional arrangements of France's Fifth Republic, where it is the Prime Minister and Government which govern, not the President. In that sense, there is little doubt that Mr Mitterrand's personal sympathies are on the left, or that these sympathies would determine his choice of Prime Minister.

But when you dig even a little bit below the surface to the practical proposals, there is so much in common between the platforms of the three main contenders, that one is tempted to believe that France is moving towards a new consensus. All three put top priority on the need to make France more competitive in time for the complete liberalisation of the European Community market due by January 1, 1993.

To this end, all three call for the strengthening of the European Monetary System, the eventual development of a common currency and the creation of a European central bank. All three support the fight against inflation. All three call for the reduction of tax rates, especially those of value-added tax, which are well above the EC average. All three propose measures to encour*age investment. All three stress the* need to spend more on research, more on education and more on training.

Surprisingly, indeed, all three advocate the introduction of some form of special help for the new poor, as if in tacit recognition, first, that they have *no magic solution to* the problem of unemployment, and second, that it is the resentments created by unemployment which have given such unexpected strength to the extreme right-wing National Front of Mr Jean-Marie Le Pen.

There are differences, of course. Mr Mitterrand would re-introduce a wealth tax to finance help for the new poor, but he would not change personal income tax rates. Mr Barre would widen the income tax net, which at present takes in only 60 per cent of households and he is much the most categoric on the need to cut VAT rates towards the EC level. Mr Chirac underlines the difficulties which may be involved in VAT harmonisation, presumably because he is reluctant to follow Mr Barre on a widening of the income tax net.

The biggest differences are those connected with the present right-wing Government's privatisation programme. Mr Chirac would continue with the programme, returning to the private sector not merely those remaining companies nationalised by the Socialist government in 1982, but also companies nationalised in the immediate aftermath of the Second World War. Mr Barre, whose supporters have criticised the Chirac government for using the privatisation programme for party ben*efit, would prefer gradual* privatisation through new capital issues.

Mr Mitterrand defiantly claims that the Socialist nationalisation programme was necessary and useful in the circumstances of the time, but by now he would rather let the whole *issue drop.* Even the Socialist Party has come round to the position that nationalisation and denationalisation are both legitimate acts, according to the pragmatic requirements of circumstance. The new socialist code-word to describe this process is *"respiration,"* or breathing in and out.

The simple explanation for so much surprising consensus, if that is the right word, is that Mr Mitterrand and the Socialist Party paid the price of electoral defeat in 1986, and have digested a number of facts that they had not fully appreciated before 1981: that France has no future except as a moderate economic power in an intensely competitive world; that the EC is the most immediate expression of that competitive world; and that the French economy must in all essentials be run on principles compatible with the competition.

When the Socialists came to power in 1981, it was after 23 years in opposition, and with wholly anachronistic plans for grappling with the after-effects of the second oil crisis: a shorter working week, increased employment in the public sector, much earlier retirement, and a massive nationalisation programme. They had not taken on board the significance of France's economic dependence on its trade with the rest of the world, and especially its inter-dependence with the EC.

The results were rapid and predictable: the trade balance and the budget deficit both deteriorated catastrophically, and the Government was forced into three devaluations within two years. In little more than one year, it was already being obliged to back-track, to try to tighten budget discipline, and to fight inflation, first with a price and wage freeze, then with the abandonment of wage indexation.

Moreover, the Socialists discovered that the industrial companies nationalised were, in many cases, in serious economic difficulties which required ever-increasing injections of public funds to keep them afloat. Mr Mitterrand continues to claim that the nationalisation programme was an economic and financial success, because it "saved" great companies which its private owners had bled white and were preparing to sell to foreign multinationals. This may be an over-statement; it is in any case not obvious that nationalisation was the only, or even the best solution.

It is nevertheless a fact that nationalisation was followed by a substantial restructuring programme, which returned to profitability a number of large groups, including Thomson, Pechiney and Rhône-Poulenc. And from 1983, when Laurent Fabius replaced Jean-Pierre Chevènement at the Industry Ministry, the policy objectives assigned to the nationalised companies were increasingly those applicable to private companies – productivity, profitability and fund-raising on the private capital markets.

A parallel change of policy emphasis took place in the financial sector. After Pierre Bérégovoy replaced Jacques Delors at the Finance Ministry in 1984, *the Government* presided over a momentous process of financial deregulation and innovation, including the launching of new savings instruments, certificates of deposit and commercial paper, coupled with the creation of a financial futures market and the abandonment of quantitative credit control.

Sometimes Mr Chirac likes to portray the issue in this election as the choice between socialism and liberty; sometimes he prefers to attack Mr Mitterrand for immobilism and vagueness. *This may be sound debating tactics,* though it is hard to believe that both propositions can be true simultaneously. It is arguable that the policies pursued by the Socialists with a time-lag after the nationalisations of 1982 laid the groundwork for the privatisations of 1986-87; and in the financial field, there has undoubtedly been an unbroken trend towards deregulation, which was started by the Socialists and continued by the right.

In the two years since it came to power, the right-wing Government of Mr Chirac has regularly squeezed the budget deficit and, until the stock market crash last October, pressed forward with its privatisation programme. In some respects, its economic policies have produced satisfactory results, but there are a number of worrying issues.

The inflation rate, which was 14 per cent when the Socialists came to power in 1981, was steadily brought down every year until 1986, when it reached 2.1 per cent. Last year it rose slightly again to 3.1 per cent, but the inflation gap with West Germany was again reduced, to 2.1 percentage points. Similarly, the growth rate has risen, since the near-stagnation of 1983, to 2.1 per cent in each of the last two years. However, some slowdown is likely this year.

The chief worries are the high rate of unemployment and the foreign trade deficit. Unemployment rose steeply as a result of the lay-offs and restructurings of the Socialist years, and it moved up once more when the Chirac government eased the rules on sackings; today the total stands at around 2.5m. The Government claims to perceive signs of improvement, but the main factor holding down the official unemployment rate appears to be the energetic pursuit of youth training schemes and other social policies.

The foreign trade balance has been in deficit for many years; it moved into virtual balance in 1986 largely as a result of the decline in the price of oil. The worrying feature of 1987 was a new deterioration, to a deficit of FFr 31bn (£2.92bn); after several years of loss of foreign market share, the balance in manufactured products moved, for the first time since 1969, into deficit (FFr 8bn). This has provoked a rumbling but inconclusive debate over whether, despite restructuring and despite improved profit margins, French industry has become structurally uncompetitive.

These factors go a long way to explain the vagueness and the overlap in the economic platforms of the three main candidates. For political reasons, the EC, the EMS and the single market scheduled for 1993 have become articles of faith, an extension of the French consensus on foreign policy and defence. As a lesson of bitter experience in the case of the Socialists, and because this is, after all, the Reagan-Thatcher decade in the case of the conservatives, the implicit message of all three candidates is that the state cannot *do* as much as French voters have in the past assumed and expected.

The problem is that the figures on inflation, unemployment, growth and trade raise uneasy questions about how well France will fare in Europe's brave *new world. The dilemma has been* summed up by a senior Eurocrat: "The French talk more about 1993 than anyone else. But they seem to talk as if they thought they were already beaten."

OBSERVER

Hill Samuel's last movie

■The Last Emperor won nine Oscars and has taken $100m at the box office. That is not enough for Hill Samuel, the merchant bank that made the project possible.

Not every sector of the bank was overjoyed about the prospect of more Last Emperors. Martine Hamon, head of Hill Samuel's film finance division, said: "Banks have always been fairly reticent to get involved in this type of financing and within such a large institution as ours there are various arguments and views given on various subjects. These views get out when perhaps not everyone has got together and decided to make a specific comment."

She declined to be specific herself. Hill Samuel became involved four years ago, but no other venture approaching such a scale has been undertaken since and there are doubts whether one will, although Hamon is not closing the door on the possibility.

The bank does not want to encourage would-be film makers to queue at its door and is anxious to keep a low profile in its film industry role. It had no one at the Oscar ceremony, dismissed by one senior manager as too boring.

Britoil's Scot

■Takeovers of Scottish-based *companies by those from south of* the border create a rather special demand: for a man with impeccable Scottish credentials prepared to serve on the board of the new entity without being too obviously a token "kilt".

A prime example is Sir Norman Macfarlane, a leading Glasgow figure and medium-sized industrialist who joined the board of Guinness in 1986 after it reneged on its commitment, made in the heat of the Distillers takeover, to name as its chairman Sir Thomas Risk, Governor of the Bank of Scotland. When the Guinness affair broke a few weeks later, Macfarlane was the ideal choice for interim chairman to succeed Ernest Saunders.

Sir Robin Duthie, chairman-designate of Britoil, also fits the bill. The strength of Scottish feeling about Britoil's takeover by BP never matched that aroused by the Distillers case, and some Scots admit that Britoil was always a rather artificial entity, located in Glasgow for political reasons. Nevertheless, Duthie will need all his powers of emollience to fend off anyone who considers him and the fellow Scots on the new board as Quislings.

Duthie is a friendly man from Greenock with a background in accountancy. He has been non-executive chairman of the Scottish Development Agency during the crucial period since 1979 - the year in which the Conservatives came to power. The Tories were intensely distrustful of what they regarded as Labour's new Scottish quango.

Under Dr George Mathewson, the chief executive appointed by the Duthie board in 1981, the agency became more discerning in its interventions and grew into one of the more dynamic institutions of its kind in Europe.

Apart from smoothing the potentially abrasive edges of successive single-minded chief executives, Duthie's main achievement has been gradually to convince the Tories, notably the Prime Minister, not only that the agency is a good thing, but also that they might as well enjoy the credit for what it does.

Hover cover

■Scott, the maker of paper tissues, is launching a range of disposable paper toilet seat covers, backed by research which indicates that 79 per cent of women in the UK never sit on a public lavatory seat, prefering to hover above it. Most men are sitters and northern men in particular. About 50 per cent of southern men did not like to touch the seat against only 10 per cent of northerners.

Hong Kong Expo

■A group of Hong Kong businessmen is proposing to the Paris-based Bureau International des Expositions that the territory should be selected as the venue for a world expo in 1997 – the year in which sovereignty over the territory is transferred from Britain to China.

The group, headed by Stephen Cheong, an industrialist and member of the legislative council, says that there could be no more emphatic way of asserting confidence in Hong Kong's future.

So far there has been no signal whether Whitehall or Beijing would back the idea and no indication from Paris on whether competing claims might take precedence.

Yet the proposal should not be dismissed out of hand. The group suggests using the site of Hong Kong's existing Kaitak airport for the exhibition. A new international airport should be in operation by then, allowing development of a large area

The expo could also help underline China's promise of "one country, two systems", embracing capitalism and communism in the same land. The transfer of sovereignty on June 30 1997 would make it certain that the six-month expo would be launched under British colonial auspices and closed by the new rulers.

Diplomatic rewards

■The British Foreign Office has revised, as it periodically does, its list of hardship posts for diplomats serving overseas. The list covers 90 countries, divided into three categories according to the degree of hardship. Diplomats receive a modest allowance, known as a difficult post supplement (DPS), for their pains.

Most of the list explains itself. Ethiopia and Nicaragua, for example, have moved to group one, which includes the most difficult of the lot. There are 29 others in the group.

Sierra Leone and Guatemala are among posts that have apparently become easier to serve in having been relegated to group two where the allowance is only eight per cent of salary, against 12 per cent in group one.

Nobody could explain yesterday, however, why the Solomon Islands, which sound a pleasant sort of place, now qualify for the maximum. According to the official list, there are only two British diplomats there. Perhaps they don't get on.

Fit for a King

■Amphitheatre enthusiasts are not amused at the removal of their portacabin overlooking the Roman dig next to Guildhall Yard. It has been taken down to make way for the state banquet in honour of King Olav of Norway this evening.

The Romans never got so far as Norway and lost out eventually to the King's ancestors. They have capitulated this time to allow turning space for the offical cars, according to London Corporation. A second factor was a planning regulation that allowed the cabin to stay for a maximum of 28 days. A corporation spokeswoman said it would be put up again when the King had gone.

David Lascelles reports on the UK banks' battle for medium-sized corporate customers

The fight for the middle market

NEWSPAPERS and billboards in the UK have been carrying large advertisements from the clearing banks recently, promoting their services for corporate customers. Special banking centres for businessmen, tailor-made products, keen attentive specialist staff – all these benefits are being touted.

It is a sign of the growing fashion among the clearers to "segment" their markets. In the last two or three years, they have been dividing their customers up into separate groups and marketing their wares to each in a more focused way. One of the most hotly sought after segments is the so-called "middle market" of companies which are smaller than the multinationals but larger than the shop on the street corner; the bulk, in fact, of the British corporate community.

Banks define the middle market slightly differently. Mr Rodney Baker Bates, UK corporate banking director of the Midland Bank, says that it starts where companies are professionally rather than owner managed and stops below the multinationals; it comprises some 67,000 corporate entities. Lloyds Bank brackets together companies between £0.5m and £35m in annual turnover.

The point about the market *is that it* includes a large number of growing companies, with increasingly sophisticated financial needs, for which the banks think they can perform lucrative services and so earn more than they do in the cut-throat world of blue chip companies. The days when bank services to the business customer consisted largely of routine activities such as loans, documentation and money transmission are yielding to an era of management buy-outs, multi-option facilities and forfaiting.

"There is a lot of growth left in the middle market, particularly on the back of a strong economy," says Mr Brian Pitman, the chief executive of Lloyds Bank. Last year, profits from the UK middle market went a long way towards offsetting the huge losses which the clearers registered on their loans to Third World countries.

The banks already have well identified shares of this market. By Midland Bank estimates, it has about 20 per cent itself, Lloyds has about 14 per cent, and Barclays and NatWest dominate with about 29 per cent each. The remainder of the market is shared between the Scottish banks, the TSB and Standard Chartered, which are all also striving for a larger share.

The dominance of the large clearers means that outsiders have found it exceedingly hard to break in. Only one foreign bank has made any serious attempt in recent years: Citibank, the US's largest and, many say, most aggressive bank. But two months ago Citibank gave up. It said that it could not achieve a profitable volume and had failed to persuade sufficient companies to give it their clearing business – the bread and butter of banking.

To serve this market, the clearers have been establishing, over the last year or two, their networks of corporate banking centres, which represent a deliberate break from the traditions of branch banking. The centres have been opened close to the businessman – on industrial estates *for example – rather than in the* high street, and they stay open for office hours. They are staffed by people specially trained to understand business and to market the banks' commercial services.

Barclays has gone furthest by establishing 325 of these centres – roughly the same number of branches as Marks and Spencer. Other banks have much more modest operations. NatWest has only 32, but is aiming for 90, Midland has 62 and Lloyds 56. However, unlike Barclays which has based its centres in existing branches, the others have often gone for new premises to emphasise the novelty.

According to Mr Bill Gordon, director *of corporate services at Barclays*, the decision to go for a large network was prompted by the need to build up close relationships with clients and spare them having to make a big effort to see their bankers. "You can't have relationship banking without relationships," he says.

Other banks say this approach is too expensive. They prefer to aim their services more selectively at companies who, they hope, will give them sufficient business to warrant the expense of maintain*ing close relationships*.

Mr Baker Bates at Midland, for example, says that a good part of his strategy is "deciding which customers we do not *want." He says it* costs £60,000 a year to maintain a man in the field and he must generate seven times that amount in revenues to bring in the necessary profits. Many of Midland's salesmen spend their time in telephone-equipped cars driving to see customers, rather than sitting in an office.

The specially trained staff which have been placed in these business centres are usually grouped in teams which serve a specific number of clients. Lloyds, for example, has 158 teams, each expected to have particular knowledge of the area in which it operates.

One problem the banks have had to address in setting up the service is how to supply each centre with enough expertise to meet customers' demands. Barclays, for example, offers a basic selection of 59 business "products" under headings of finance and lending, international trade, money transfer, information, risk management, insurance, investment and investment banking. But the actual number of products is much bigger than this. Midland, for example, puts its total at 296.

Mr Gordon, at Barclays, describes his bankers by analogy with doctors in general practice – as "GPs with a very large bag." He estimates that they can meet 90 per cent of his clients' needs and quickly provide the remaining 10 per cent by tapping the appropriate expertise within the Barclays system. Similarly, Midland and Lloyds see their business centres as the main channels for supplying products and services.

But Mr Baker Bates admits that one of *his greatest difficulties* is in marrying up the commercial banking services with the newer investment banking activities developed within Midland Montagu.

Commercial bankers, he says, are interested in the relationship, while investment bankers want transactions and are not willing to invest time on a budding client whose big deal, such as a flotation on the stock market, may still be years away. He is training his staff to try to bridge the gap.

But NatWest has taken this a stage further by creating a kind of flying squad of specialists in financial engineering that can be rapidly deployed to meet demand for expert services, such as *corporate finance, treasury and exposure* management and international leasing. Mr Tony Hennessey-Brown, head of the 31-person unit formed just over a year ago, says it works alongside the relationship managers and has been particularly active in areas like management buy-outs. His experts, he says, "had to be close to the market rather than sitting in an ivory tower."

However, all the clearers are aware that this initiative, like so many in the banking business, is fraught with high costs and the risk that no bank will gain any great advantage from it.

For one thing, all the banks are doing roughly the same thing at the same time, *using mimicry rather than differentiation*. Nevertheless, each is striving to achieve an edge over its rivals, whether it be through speed of response, better trained staff, or the variety of products. Price competition does not seem to enter into it, or at least is not at the forefront of the marketing drive.

"You can't pile it high and sell it cheap," says Mr Baker Bates, whose particular selling point is a specially developed computer system which can assess Midland's customers' creditworthiness in seconds (he has three terminals: in his office, his car and his home). He predicts that the competition "is going to be bloody."

Europe's slump

Been down so long it seems like up to me

By Jean-Paul Fitoussi and Edmund S. Phelps

IN THE 1980s we have been seeing what may well be called the Second World Depression. For Europe, persistent high unemployment makes this the deepest and longest slump since the world depression of the 1930s.

Keynes's diagnosis of the 1930s slump traced it to a weakening of long-term profit expectations. In the Keynesian prescription, the first line of defence was monetary stimulus through an increase of the money supply or a reduced bank rate. Today, in economies where wages chase closely after consumer prices, owing to explicit or implicit wage indexation, the economic body has grown immune to this remedy. However, if monetary stimulus was ruled out, the Keynesians' fall-back remedy was fiscal stimulus: increased consumer spending via a tax cut or increased public spending.

Such is the power of this Keynesian view that the prevailing analysis treats the 1980s depression as a replay of the 1930s. The US recovered early from it, thanks to its audacious fiscal stimulus and an ebullient Wall Street, which have supported big spending by consumers and corporations alongside government spending as usual. Europe remains in a slump because of its fiscal restraint, which is either admirable or tragic. It would have slowed still more without America's Keynesian locomotive. When West Germany and the rest are pressured to take up more of the Keynesian burden, Europe will do better.

In fact, the data from the 1980s are so widely at variance from this Keynesian interpretation as to leave us still at square one. When adjusted for the steep decline in inflation, interest rates are not down, which they would be if the basic problem were depressed world spending; real interest rates have set record highs this decade (see table). When adjusted for the decline of the "inflation tax" over the decade, budgetary deficits in Europe are not generally down, which they would be if the problem were fiscal restraint; in some countries the real deficit has markedly increased. Finally, European currencies do not show the weakness in exchange markets that would indicate weak aggregate demand, internal or external, for European production.

The right theory of the present slump must have as its centrepiece the striking elevation of real interest rates throughout the 1980s. In a book published recently*, we argued that the Reagan Administration's assorted tax cuts and investment subsidies were the major event of the decade.

That programme may well have stimulated the expansion of US employment following the Volcker disinflation launched early in the decade. But a side effect of these Reagan stimulants was the momentous worldwide rise of real interest rates.

In the US, where this interest rate rise was a creature of the stimulus, it could hardly defeat the expansionary forces and thereby convert expansion to contraction. In Europe, though, where the Reagan potion was not drunk, the shock to real interest rates struck while defences were down. The "imported" increase in real interest rates caused Europe to suffer higher price mark-ups over cost, a slowdown of the growth of capital stock and cuts in capital goods production, all of which reduced employment.

The surprise in the past two years is the modest scale of the decline in real interest rates. If we estimate at $90bn the "neutral" US budgetary deficit, which is the red ink needed to make the public debt exactly keep pace with inflation, the excess of the actual deficit over that neutral level can be calculated to have fallen by more than half in recent years. In addition, the US subsidies to investment, which took effect in 1982 and were thought by many to be a boost to real interest rates, were nearly all off the books by 1987. Hence the suspicion is that there is more to the elevation of real interest rates than US policy. But what?

Five developments have helped push up this decade's real rates:

● The most spectacular shrinkage in the supply of saving occurred not in the US but in Japan, where gross national saving fell by 8 per cent of gross domestic product between 1973 and 1980.

● In the US and some other countries, the reduced thrift represents decreases in private saving as much as public saving. The tremendous rise of residential property values and the growth of public entitlements under social insurance programmes are among the causes.

● The mountain of public debt already left by past government deficits induces increased consumer spending far beyond the addition it makes to people's after-tax income. When governments offset the added interest outlay with added taxes, the "wealth effect" of the public debt on spending remains.

● An evident improvement in the international mobility of financial capital, enhanced on the Continent by the European Monetary System, made real interest rates in the countries where they were low, such as France and Italy, jump to the range found in the highest-rate countries.

● The stunning growth of several economies in the Pacific Basin may have brought with it a surge in the profitability of investment there. This would contribute to the rise of world real interest rates and to the crowding out of investment in less dynamic Europe, Africa and Latin America.

Faced with the prospect that high real interest rates will linger for years, the European countries must renew the call for slower growth of real wages or else find ways to quicken the growth of productivity if they are to achieve a full recovery from the present depression.

The authors are professors at Université de Paris and Columbia University respectively.

* *The slump in Europe: Reconstructing open economy theory*, *Oxford, Blackwell.*

Real interest rates US corporate interest rate adjusted for inflation

	1980	1982	1985	1988
1 Nominal rate Aaa-rated bonds, January	11.1	15.2	12.1	9.9*
2 Inflation rate CPI, December to December	12.4	3.9	3.8	3.5**
3 Real rate (1-2)	-1.3	11.3	8.3	6.4

* Preliminary ** Average of 30 forecasts

Letters to the Editor

No defeatism in strike-free deals

From Mr Roy Sanderson

Sir, Your editorial entitled "Challenge for trade unions" (April 8) offered a reasonably balanced analysis of the "schism" within the TUC over single union strike-free agreements.

However, the tone of the editorial implied that these agreements represented a tactic of retreat on the part of unions. This is not so. The initiative for these agreements has invariably come from the EETPU (electricians union) and not from the employers. We have pioneered them because, in this day and age, they represent a pattern of industrial relations which preserves the fundamental principles of trade unionism in a form that is acceptable to today's workers and that will produce tangible benefits.

Moreover, over the last seven years we have proposed such agreements to a number of traditional employers who have turned them down flat – no doubt in the belief that they will *dilute managerial authority* and represent a degree of industrial democracy that is not countenanced by the main stream of British management.

There is no possibility of the decline of trade unions being halted and reversed by offering the class-based policies offered by the TGWU (general union) and MSF (general technical union). They play straight into the hands of the already successful anti-union lobby in this country.

The approach embodied in the single union strike-free agreements, far from being a defeatist tactic, is one of the positive ways of ensuring that our movement survives into the next century, not as a pale shadow of its former self but as a powerful force for economic and social good.

Roy Sanderson,
Electrical and Engineering Staff Association,
Hayes Court,
West Common Road,
Bromley, Kent

Restrictions that hurt viewers

From Mr Nicolas Mellersh

Sir, Your report (April 8) of the draft Council of Europe Convention on cross frontier broadcasting illustrates the complete lack of comprehension by that body of the differences between terrestrial broadcasting and satellite channels.

There is every reason for a state to impose restrictions – such as on the amount of advertising content – on a limited number of terrestrial channels licensed to exploit that scarce national asset, the frequency spectrum.

However, there is to all intents and purposes no limit on the number of satellite channels that may be distributed, so there is no case for control of their content other than for protection of the consumer. It is right for the Council of Europe to seek basic standards of taste and decency, for example, but quite inappropriate to attempt to determine the volume of advertising that is acceptable. If satellite programme companies include more advertising than viewers can stand they will rapidly cease to have an audience. Equally there *is no case to limit sponsorship*, provided that the sponsorship of a programme is made clear.

The proposed ruling that all channels should have 51 per cent European content may appear desirable, but it will effectively rule out channels aimed at ethnic minorities, such as the Hindi Indra Dhnush currently available to British cable viewers.

It will also deprive the public of access to film channels, such as Premiere, which by their very nature consist in the main of US material.

These measures are very clearly an attempt to protect the interests of European broadcasters unable or unwilling to cope with the competition that satellite technology is bringing.

The proposals are not only protectionist, but quite contrary to the interests of viewers across Europe, who demand a wider choice of viewing more suited to their tastes and interests than that currently provided by the national broadcasters.

The British Government's defence of the European public interest is to be commended.

Nicolas Mellersh,
The Cable Television Association,
50 Frith Street, W1

The interest rate dilemma

From Mr Christopher G. Bomford

Sir, The Government clearly has a problem with applying interest rates – its chosen weapon – to control the soaring value of sterling.

Simply, the cuts in interest rates to suppress the currency also create inflationary pressures *in the domestic economy. While* political ideology and the Prime Minister do not allow the stick of fiscal or quantitative controls to reduce excess domestic credit, the carrot of further inducements to increase savings at the expense of spending might resolve the dilemma.

I have two suggestions: first, the immediate issue of a high coupon, say 9 per cent, National Savings Certificate; second, an extension of the personal equity plan to say £5,000, subscription to which should be allowed out of pre-tax income.

Failure to resolve the problem sooner rather than later will eventually necessitate severe measures and a *de facto* return to the disastrous stop-go policies of an earlier decade.

Chistopher G. Bomford,
Woodstock Cottage,
Reading Road,
Wallingford, Oxon.

Strong pound provides a healthy lesson

From Mr G. M. Armitage

Sir, Complaints from UK exporters about the effect of a higher level of sterling must give wry amusement to some of our competitors, particularly in West Germany and Japan, who have lived for years with strong currencies.

Like the UK, they also have been reducing unit costs, but with the crucial difference that they have not had the impediment of the absurd level of wage increases, well in excess of inflation, which has been a characteristic of the UK. It is no wonder that, to be competitive, export prices have for so long depended on an ever weakening sterling value – debasement of the currency might be a more honest term.

If sterling remains strong for some time it may assist in driving home, in the only compelling way, the effect of excessive wage settlements. If the lesson is not learnt, then UK industry is in for a very rough time, and rightly so.

G. M. Armitage,
99 Overstrand Road,
Cromer, Norfolk.

A little too rich for the tourists

From Ms Anne Redston

Sir, I read with interest "*Monkey and wild boar are on the* menu in (this) gourmet tour of Thailand" (FT Breakaway column February 13). Is the Financial Times really encouraging people to come to South-East Asia and eat the wildlife?

Anne Redston,
5c Starview,
Discovery Bay,
Lantau,
Hong Kong.

Directors ignore the implications of the Insolvency Act at their peril

From Mr N. H. Stanbury.

Sir, I read with great interest the article "New pitfalls for directors" (April 6) in which Martin Piers and Barry Donnelly rightly emphasise the significant potential exposure of directors to personal loss arising from wrongful trading. I would like to think that all your readers who are directors have studied the implications of the Insolvency Act 1986 and will take appropriate action but, alas, experience suggests otherwise.

I should like to take this opportunity to clarify the following points. First, the authors mention the Directors Professional Liability Insurance scheme for members of the Institute of Directors, which is arranged and administered by my company. This cover is written on an individual basis and protects a director in respect of his personal portfolio of directorships and other company offices. The present *maximum indemnity* is indeed £250,000 but this is under review. However, similar cover has long been available on a "board basis" (to protect all of the directors of a given company or group), is not restricted to IOD members and, in appropriate cases, can provide a maximum indemnity of several million pounds in the period (usually a year) of cover.

Second, many directors hold the mistaken belief that they are *entitled to a full indemnity* from their company in the event of being required to meet personal damages and costs arising from their wrongful acts, but such indemnity is severely restricted by section 310, Companies Act 1985, which is a further reason why the external indemnity offered by insurance is so important.

N. H. Stanbury,
Directors and Officers Limited,
Marshall's Court,
Marshall's Road,
Sutton, Surrey.

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Italy set for 48th postwar government

PRIME Minister-designate Mr Ciriaco De Mita received the final go-ahead from political leaders yesterday to form Italy's 48th postwar government and prepared to present his Cabinet list to the president, agencies report from Rome.

"All the problems are resolved," the Christian Democrat leader told reporters of his negotiations for forming a new five-party coalition.

Mr De Mita, 60, indicated he would go to the Quirinal Palace today or at the latest tomorrow to present his list of cabinet ministers to President Francesco Cossiga, thus formally ending the month-long government crisis.

The coalition is to be made up of the same five parties that have governed off and on since 1981: the Christian Democrats, Socialists, Social Democrats, Republicans and Liberals.

The new government will request a vote of confidence from parliament next week.

Bitter rows between the coalition partners have caused a year of instability including five government crises, culminating in a general election last June.

Leaders of the five parties agreed on the terms for the new government on Monday, and the parties met again separately yesterday to give their final endorsement.

The crucial support came from the Socialists, the second-largest party in the coalition and a frequent foil for the Christian Democrats.

Although it looks strong, the new administration is one of transition, says **John Wyles**

De Mita's coalition seeks longevity

AFTER MORE THAN a year of political manoeuvring and uncertain government, Italy now has a coalition with more potential authority and durability than any since Bettino Craxi's first coalition fell in the summer of 1986.

This is not to set much of a standard for Italy's 48th post-war government, headed by Mr Ciriaco De Mita, the new Prime Minister. The fact that there have been three administrations in the past 21 months, including Mr Craxi's second government, indicates that Italy has been slightly underperforming against the post-war average for the life of its governments.

But, for several reasons, Mr De Mita can expect to beat the average. He is a 60-year-old southern politician who has never been Prime Minister before. But in six years as Christian Democrat secretary, he has established himself as a formidable machine politician. He is skilled in the use of patronage and in the arts of mediation necessary to stay at the top of the greasy pole of Italian politics.

He also has a certain advantage that Mr Craxi did not enjoy when he was setting a post-war record for government tenure – he is the leader of Italy's largest party. He can thus bring considerable political authority to what is a crucial attempt to reassert the Christian Democrats' central position in Italian politics.

Once the star around which the Italian political system orbited, Christian Democracy has been in steady decline for more than a decade. Since 1976 its share of the vote has dropped from 40 per cent to 34.3 per cent last year.

The most humiliating reminder of its reduced status has been the absence of a fully fledged Christian Democrat Prime Minister from the Palazzo Chigi since May 1981.

Mr Amintore Fanfani was only a caretaker for four months last year after Mr Craxi resigned, while Mr Giovanni Goria, who moved into the Prime Minister's offices after last June's elections, was only half-fledged – 43-years-old at the time and a substitute for Mr De Mita.

With substantial electoral gains behind him, Mr Craxi had been able to use his 14.3 per cent share of the vote to blackball the Christian Democrat leader, refusing him Socialist support and, therefore, a parliamentary majority.

But once Mr Goria was effectively deposed by his own party when many of its members repeatedly voted against his budget proposals, Mr Craxi could not a second time deny Mr De Mita the stage. To do so would have risked pushing the Christian Democrats into the arms of the Communists in some kind of repeat performance of the 1976-78 *compromesso storico* (historic compromise).

Nevertheless, Mr Craxi's tactics tend to support the view that Mr De Mita's government is one of transition in two senses. The first is that although the new coalition comprises the same five parties which have governed together since 1981, they are more loosely bound than ever before.

Neither the Socialists nor the more junior Republican, Liberal and Social Democratic parties want to be seen as satellites of the Christian Democrats – as they were in the past. Mr Craxi put the maximum distance between his party and the Christian Democrats by making Socialist participation entirely conditional on agreeing a detailed government programme.

The past three weeks of policy negotiations have enabled him to present the Socialists not only as primarily preoccupied with the needs of the nation, but also as a party subtly moving towards the populist left.

On his insistence, the controversial nuclear power station at Montalto Di Castro is to be converted to non-nuclear fuel. On his insistence, policies for the Mezzogiorno – Italy's poor south – are specifically aimed at reducing unemployment (and at boosting party patronage through higher public sector employment). And on his insistence, the new coalition's programme has a section on enhancing womens' rights.

All of which suggests that Mr Craxi may be slightly altering course and heading off to fish in the Communist Party's electoral waters.

Such a move would be entirely consistent with the view that he hopes the next election will register further declines for the Communists and put him in a position to head a left coalition which despatches the Christian Democrats into opposition for the first time in its history.

The new government is also transitional in the sense that its self-proclaimed task is to raise the standard of Italian government and administration and to make the necessary reforms which will prepare Italy for the European Community's 1992 deadline for completing its internal market.

Thus it is pledged to take early action to reduce the huge government deficit, beginning with tax increases before the summer designed to bring in extra revenues of L6,000bn-L7,000bn. This would reduce the expected deficit this year to L115,000bn ($92bn) or around 11 per cent of gross domestic product – still far distant from the L103,000bn targeted by the Goria Government last autumn.

The Government says it will aim for reductions in succeeding years of L7,000bn-L8,000bn so eventually, revenues will be balanced with current spending net of interest payments on the near L100,000bn of government debt.

The policy programme pledges to raise the efficiency of government by restructuring public administration and reforming parliamentary rules to reduce the duplication between the two houses of parliament and speed up the passage of legislation. Use of the secret vote will be severely curtailed.

Special steps will be taken to catch up on the 250 EC directives which Italy has still failed to translate into national laws and to co-ordinate government action as internal market agreements are reached in Brussels.

The programme also promises to legislate on the right to strike, to improve the effectiveness of development policies for the Mezzogiorno (partly by significantly expanding public employment), to bring in a new non-nuclear energy policy and to reform education and health.

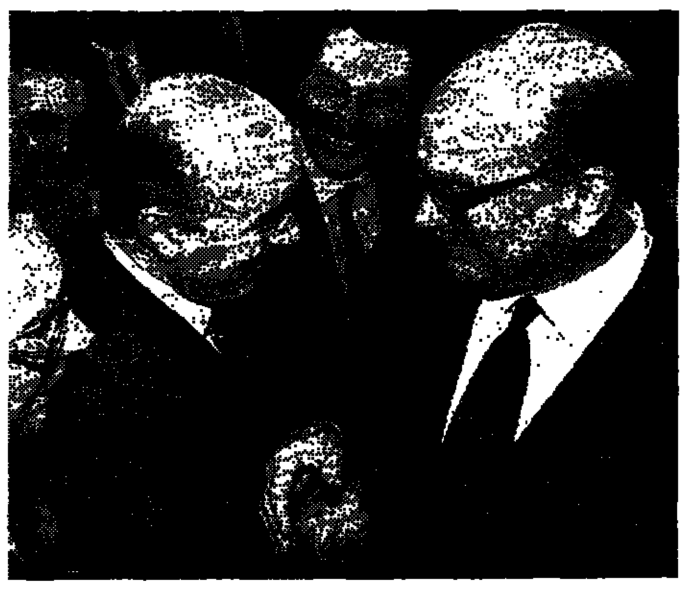
On the foreign policy front, Italy's readiness to accept the wing of US F16 fighter bombers withdrawn from Spain is implicitly confirmed.

Will Mr De Mita's government be afforded the time to execute this ambitious programme? He is bound to suffer the normal road accidents of Italian politics. These may give an impression of unruliness, but nothing fatal should befall him before the European parliament elections in June next year.

By that time, Mr De Mita will probably have been forced out of the secretaryship of the Christian Democrats by ambitious rivals anxious for a broader share of the political spoils.

As a mere prime minister, he will be much less shielded from Bettino Craxi, who is very determined to minimise the political gains which the De Mita government might bring to the Christian Democrats.

With all the usual caveats about the uncertainties of Italian politics, Mr De Mita probably has 15 months before he starts to feel that a large bespectacled Socialist gentleman is nudging him towards the revolving door.



Veteran leader of two Italian governments Bettino Craxi (right) congratulates new Prime Minister Ciriaco De Mita

Chinese law amended to promote private enterprise

By Robert Thomson in Peking

THE Chinese constitution was amended again yesterday to reflect the Communist Party's new enthusiasm for private enterprise and a property market.

Both changes highlight the sensitive ideological problems the party is confronting with its pragmatic economic reform programme. Until yesterday, land transfers were "unlawful," although the Government has been experimenting with them and has plans for a national property market.

Transfers and sales of land by "unlawful means" are still prohibited, but the party has given itself flexibility by adding a sentence: "The right to the use of land may be transferred according to law."

China's constitution has been changed often since the revolution in 1949, with each change reflecting the ambitions of the faction in power at the time. Now a paragraph has been added to encourage the development of private enterprise.

"The state permits the private sector of the economy to exist and develop within the limits prescribed by law. The private sector is a complement to the socialist public economy," the new constitution says.

However, the Government, as well as protecting "lawful rights and interests," will "exercise guidance, supervision and control over the private sector."

The changes were approved by the National People's Congress, the Chinese parliament, which also appointed a new cabinet, including new defence and foreign ministers. The previous foreign minister, Wu Xueqian, has become a vice-premier, and has been replaced by Qian Qichen, an important player in the improving Sino-Soviet relationship.

Formerly a vice-foreign minister, Qian, 59, fluent in Russian and English, was China's special envoy in recent negotiations with Moscow, and has been involved in the re-establishment of party-to-party relations with communist parties in Eastern Europe.

The new defence minister is Qin Jiwei, 73, who replaces Zhang Aiping, 78. Both men are veterans of the long march. Qin is an old friend of the party boss, Zhao Ziyang, and the paramount leader, Deng Xiaoping, and has overseen the demobilisation of 1m members of the People's Liberation Army.

● A group of Hong Kong businessmen has proposed Hong Kong as the venue for a world exposition immediately after the colony is returned to China in 1997, Reuter reports from the British territory.

Hong Kong Legislative Council member Stephen Cheong said yesterday that "Expo 1997" would attract foreign interest to what would then be China's Special *Administrative Zone and help to* promote Hong Kong industry and business.

THE LEX COLUMN

Glaxo plays to its strengths

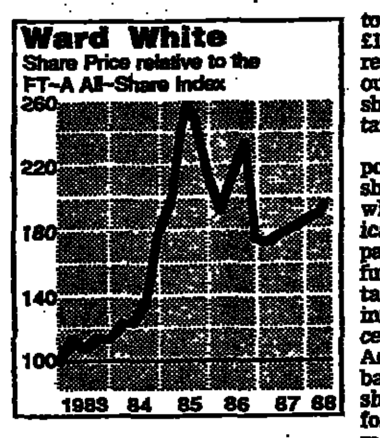
When Glaxo first prised open its research cupboard last year and dazzled the analysts with its array of new products, the result was a share price outperformance of a third in a matter of weeks. This is not a trick which can be repeated annually, but Glaxo has lost none of its capacity to surprise. The remarkable scale of the group's plans for capital expenditure on R&D, disclosed to analysts yesterday, looks like making Glaxo much the most capital-intensive drug researcher in the world.

The £1bn to be spent over five years is of a different order from ICI, whose own £1bn plans announced yesterday cover worldwide drug production as well as research over a decade. In particular, the £500m which Glaxo plans to spend on one plant in the UK is perplexing for an industry which would normally reckon a research establishment expensive at a tenth of that. With 2,000 employees, after all, that seems to work out at £250,000 per laboratory bench.

Given the excellence of Glaxo's track record in research, it might be thought sensible for the company to spend its cash this way rather than splashing out on acquisitions. The snag is that £1bn over five years, plus perhaps as much again in R&D revenue expenditure, may not dent Glaxo's £700m net cash mountain at all. Even after this year's projected R&D revenue expenditure of £220m, cash flow should run at £300m, enough to cover the first slug of the capital programme.

But then, Glaxo can scarcely be criticised both for spending enormous sums and for having cash left over. Much of the shares' recent weakness has come from the increasing impact of R&D on profits; taken all round, it is to Glaxo's credit that it is sticking to its guns.

Ward White



The uncharitable view of Ward White is that it has got where it is by luck. It has used its paper freely to buy an ill-assorted bunch of businesses, keeping those which have worked - now designated as key areas - and selling the rest. However, such doubts may miss the point: whether by accident or design, Ward White has arrived in the right place. During the bull market it appeared suitably aggressive, whereas in more difficult times it is starting to look uncharacteristically defensive. DIY and car parts do relatively well when spending slows, while disposals and a strong cash flow will soon reduce the 80 per cent gearing of just 18 months ago to nothing.

So far the strategy has been unevenly reflected in group results, with last year's laudable 50 per cent plus increase in profits in each of main areas sadly dwindled to a 14 per cent rise in earnings. However, with most of the mediocre businesses gone, the two will now start to move more closely together - assuming no more big purchases for paper.

From here, further changes in identity seem unlikely. Ward White shows no interest in issuing more shares given investors' reluctance to take them, so acquisitions will probably be small and paid for with cash. As the market takes this on board, the shares may edge up from the retail sector average to the slight premium they deserve. At its present price the company might seem vulnerable, as its break-up value may be a third higher again. But as demergers are firmly out of fashion, and with no plausible bidders suggesting themselves, a re-rating may depend on the company's prospects alone.

Crescent Japan

As the battle over the future of Crescent Japan gets uglier, the kneejerk reaction is to look around for a referee to ensure that the tactics are at least as fair as war dictates. Of course a unitisation is not a takeover, and the Takeover Panel has rightly refused to bother itself with the details of the proposed metamorphosis of Crescent Japan. But in the absence of statutory policing of the reorganisations taking place in the investment trust sector – trusts with as much as £1bn worth of assets could be restructured before the year is out – the virtues of Britain's shareholder democracy will certainly be put to the test.

Crescent Japan is a case in point: at an EGM next week, shareholders will have to decide whether to back a group of American arbitrageurs openly campaigning to "discount strip" the fund, or a management pursuing tactics which if not actively intended to poison the intruder, certainly would have that effect. Advising them are merchant bankers Noble Grossart, and shareholders could be forgiven for finding it curious that the managing director of the bank is also chairman of Edinburgh Fund Managers, which manages Crescent Japan. That is the sort of thing which sets one looking about for a bit of help from the referee.

Olivetti

The initial reaction of the Italian stock market to the reports that the entrepreneurial Mr De Benedetti had saved Olivetti from a creeping takeover by the mighty AT & T was somewhat perverse. Olivetti's shares have risen by over 50 per cent over the last four months, partly due to speculation that AT & T was considering doubling its stake in Italy's premier information technology company to around 40 per cent. So the news that Olivetti had persuaded AT & T not to go ahead with its plan should have sent Olivetti's share price down, rather than sharply upwards.

It is easy to excuse yesterday's 4 per cent jump in the Olivetti share price as just another example of the rather unpredictable share price movements that can occur in a relatively unsophisticated stock market. However, AT & T's silence on the whole affair indicates that the tale is almost certainly more complicated than it seems at first sight. It is clear that there has been a disagreement between Olivetti's two biggest shareholders, who together control around 40 per cent of the company, but whether this will lead to major changes in Olivetti's shareholder structure remains an open question. Whilst the original objectives behind the five year old relationship have not yet been achieved, both parties have an interest in maintaining their links – a fact which might not seem obvious from the current posturing by the Italian side.

West German and French zinc producers consider co-operation

BY HAIG SIMONIAN IN FRANKFURT AND GEORGE GRAHAM IN PARIS

PREUSSAG, the West German metals group, and Penarroya of France are in talks over potential co-operation, Preussag said yesterday. Both companies are among Europe's largest zinc producers.

Preussag gave no details about the talks but said they were still incomplete. Penarroya's shares were suspended yesterday on the Paris stock exchange.

The European zinc market has been plagued by overcapacity in the 1980s. The smelting industry is still operating at only about 90 per cent of capacity – although consumption has moved ahead of production, following an unexpected surge in demand from the galvanised steel industry, which has experienced a big increase in sales to the car industry.

Last May, both companies were involved in a joint study with three other producers to consider clubbing together to co-ordinate their output and sales.

Preussag would not comment on whether the latest negotiations with Penarroya were limited to zinc or extended to other metals too. "That will be shown by the results of the present talks, which have not yet been concluded," an executive said.

Penarroya's output of zinc reached 217,000 tonnes in 1986, compared with 176,000 tonnes from Preussag, and it produced 286,000 tonnes of lead, to Preussag's 163,000 tonnes. The French company has, however, recently shed its Portuguese copper deposits and its Bourneix gold mine.

The German company also declined to say whether the discussions involved simply a joint venture or extended to some wider form of co-operation between the two groups.

In January 1986, Boliden, the Swedish metals and chemicals conglomerate, announced it was pulling out of its German lead smelting joint venture with Preussag after 15 years.

Preussag, based in Hannover, has been under considerable financial pressure in the past two years. It passed its dividend in 1986 after heavy losses from its base metals division which resulted in a sharp fall in profits.

Late last year, Preussag said it expected only a small profit for 1987 but made no comment on the outlook for dividends. However, Mr Günther Sassmannshausen, its chief executive, had said in May it was likely to omit its dividend again in 1987.

Penarroya made net profits of FFr69.7m ($12.2m) in 1987, after FFr75.2m losses the previous year, though only after exceptional gains from asset sales amounting to FFr185.1m.

Imetal, previously Penarroya's controlling shareholder, has gradually reduced its stake over the past two years from 59.5 per cent to around 15 per cent.

Zinc prices raised, Page 34

Airbus partners adopt plans for major reform

Continued from Page 1

This is interpreted to mean that the ministers would like to see the current chairman, Mr Franz Josef Strauss, the Bavarian Premier, step down.

Mr Kenneth Clarke, the UK Industry Secretary, said the ministers wanted final decisions on a new management structure taken this year so that they could be in place by the start of 1989.

One of the report's chief recommendations is for the appointment of a financial director at Airbus Industrie who would report direct to the supervisory board and who would have mandatory rights to require any information on costs, profits and pricing from the four industrial partners.

At present, none of the partners shares such information.

"If Airbus Industrie does not take steps to constitute itself in the organisational manner we propose, and to introduce full transparency of costs and profits . . . we doubt whether [it] can ever reach long-term profitability," say the experts.

The report recommends scrapping the practice whereby certain senior jobs are reserved for certain nationalities and emphasises the need to evolve a career structure so that jobs with Airbus do not merely become temporary secondments from a partner.

It also says that the creation of a European import-export bank to help Airbus compete with the credits provided to US aircraft builders by the Export-Import Bank is "vital."

The report suggests scrapping the system that allows the Airbus partners to win subcontracting work up to the value of their stakes in the consortium and introducing a greater volume of competitive tendering.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	15	59	Dubrovnik	S	18	64	Malta	S	21	70	Rhodes	S	19	66
Algiers	F	21	70	Edinburgh	R	4	39	Manchester	S	12	54	Rio de Jo	F	33	91
Amsterdam	S	13	55	Faro	S	18	64	Manila	F	35	95	Rome	F	18	64
Athens	S	20	68	Florence	C	16	61	Melbourne	F	25	77	Salzburg	S	19	66
Bahrain	S	26	79	Frankfurt	C	13	55	Mexico City	C	24	75	San Francisco	F	10	50
Bangkok	F	35	95	Funchal	S	19	66	Miami	S	18	64	Seoul	C	16	61
Barcelona	S	17	63	Geneva	R	9	48	Milan	R	14	57	Singapore	R	26	79
Beirut	F	24	75	Gibraltar	C	19	66	Montreal	F	3	37	Stockholm	F	5	41
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Jackson action moves the Harlem spirit

Continued from Page 1

short phrases, about poverty, health care, jobs and drugs – above all, drugs.

He knows his audience. When he comes to drugs, the church turns into a revival hall.

"Jackson Action Attacks Drugs," the preacher cries.

"Yes!" shouts the congregation in antiphon.

"Jackson Action Attacks Heroin."

"Yes!"

"Cocaine."

"Yes!"

"Crack."

"Yes!"

"PCP."

"Yes!"

"Saturday Night Specials."

"Yes!"

"We're winning."

Ovation.

Mr Jackson may be criticised downtown for his vague solutions, but up at 145th and Convent the people don't seem very interested in his position on the security of Israel. What matters is they think Mr Jackson can win New York, and that is thrilling, almost scary.

"I'm frightened for him," says Mrs Attie Dolen, a talkative woman in a frayed silk shirt. "My friends, too, we don't want to vote for him, because he's going to be shot, we don't want to have that responsibility."

Mr Charles Payne, a young man with a towering wedge haircut, has it all sewn up. "He'll win the city," he says. "Gore'll split the Jewish vote and it'll be 40-30-30 Jackson-Dukakis-Gore. You got that? 40-30-30."

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday April 13 1988

Coca-Cola lifts net income by 14%

BY ANATOLE KALETSKY IN NEW YORK

COCA-COLA, the leading US soft drinks company, reported net income of $210.5m, 14 per cent up on the first quarter of 1987. Earnings per share rose to 57 cents from 49 cents as the company continued to buy back its own shares.

The company's revenues and operating income did considerably better than net income because of the removal of the Columbia Pictures subsidiary from the operating statements. Operating income before interest and equity profits from associated companies increased by 34 per cent to $360.7m, while the company's net operating revenues rose by 21 per cent to $1.87bn.

Columbia Pictures suffered serious losses towards the end of 1987 connected with the management upheavals and costly reorganisation after the abrupt dismissal of Mr David Puttnam, the studio's British chief. Columbia was merged with Tri-Star Pictures last autumn in a complex joint-venture in which Coca-Cola now holds a 49 per cent share.

After the merger the company's new management decided to take big writedowns in the value of Columbia's stock of completed films, several of which were not seen as having favourable market prospects.

However, Columbia's new management may prove to have been too pessimistic about the value of some of these productions, given the Oscar success of The Last Emperor on Monday.

This costly film, whose distribution was badly prejudiced by a dispute between Columbia and US cinema chains, won nine Academy Awards.

Coca-Cola's share of Columbia's writeoffs in the last quarter amounted to $48.7m, compared with a pro-forma profit of $27.5m in the first quarter of 1987.

In contrast to the film business, Coca-Cola's main activities enjoyed a trouble-free performance. World soft drink volume expanded by 9 per cent and the company's results were further boosted by a 16 per cent average depreciation of the dollar.

Mr Robert Goizueta, the chairman, described the quarter's performance as "superb" and predicted that the full year's net earnings would "mirror the excellent first quarter."

Cannon Group in $100m rescue

BY OUR NEW YORK STAFF

CANNON GROUP, the hard-pressed US film company which is the biggest cinema operator in Britain and one of the largest in Europe, has agreed to a complex $100m financial rescue which will take ultimate control of the business away from Mr Menahem Golan and Mr Yoram Globus, the controversial Israeli cousins who founded Cannon.

Control of Cannon will pass to Mr Giancarlo Parretti, an Italian financier who controls Melia Group, a travel services company quoted in Amsterdam, and Renta Immobiliaria, a property company quoted in Madrid. Mr Parretti owns these companies through a Luxembourg-based group called Interpart, whose directors include Mr Golan and Mr Globus, as well as Mr Parretti.

Interpart has gradually increased its stake in Cannon with each tightening of the financial noose which the company put around its own neck. Cannon's difficulties began in 1986, when it borrowed over $300m to buy Thorn EMI Screen Entertainment, the dominant cinema chain in the UK.

When the company's rapidly rising share price collapsed a few months later, Mr Golan and Mr Globus found themselves unable to refinance their borrowings and, ever since, Cannon has been in trouble.

Last October, Mr Parretti's Madrid-based property company bought all Cannon's property holdings for $300m and then leased them back to the company, simultaneously acquiring a substantial stake in Cannon.

Mr Golan and Mr Globus will receive "golden parachute" employment contracts worth $12.5m each if they are dismissed without cause during the next seven years.

Lorimar-Warner talks collapse

Exploratory talks between Lorimar-Telepictures and Warner Communications over a possible business combination have been called off. The approach by Warner was revealed on March 7.

Lauritzen turnround into profit

By Christopher Follett in Copenhagen

LAURITZEN, the Danish industrial and shipping group, has reported a DKr28.3m ($4.4m) net profit after tax for 1987, the first since 1983. A DKr445.5m deficit was registered in 1986.

Sales were DKr9.3bn last year, compared with DKr9bn in 1986, while profit before tax and depreciation was DKr510.6m (DKr372.8m).

While Lauritzen's shipping activities, including the Lauritzen (Olau) Lines and DFDS (United Steamship Company) performed satisfactorily in 1987, shipbuilding operations were hit by the continuing crisis in Danish shipyards.

The Danyard subsidiary, which groups yards in Frederikshavn and Aalborg in North Jutland, is to be reduced by the closing of the Elsinore yard after Danyard suffered a DKr15m loss. Lauritzen said that the prospects seemed bleak for an upswing in the troubled shipbuilding sector.

The group announced plans to sell two of its loss-making domestic ferry companies – the Grena-Hundested and Mols Linien services across the Kattegat.

Go-ahead for Air Canada sale

BY ROBERT GIBBENS IN MONTREAL

MR BRIAN MULRONEY, Canada's Conservative Prime Minister, is going ahead with the privatisation of Air Canada, the national airline.

In a surprise announcement in Ottawa, the Government said it was ready to sell up to 45 per cent of the airline to the public, but would retain a 55 per cent controlling equity stake.

Earlier suggestions of privatising Air Canada and Petro-Canada, the national energy company, had raised objections, particularly from the unions. A golden share retained by the Government would not be sufficient to quell such fears.

However, Air Canada's management, led by Mr Claude Taylor, the chairman, have favoured privatisation for more than two years, and have prepared for the eventuality.

The Government also set basic rules, to be spelled out later in legislation. No single shareholder, apart from itself, will be able to own more than 10 per cent of the equity. Total foreign direct ownership will be limited to 25 per cent of the publicly issued shares.

The objective is to achieve the widest possible distribution of Air Canada stock among the Canadian public, including the employees. The Government says it will not interfere in the airline's commercial decisions or operations but the head office will remain in Montreal.

The Government is committed to pump in C$300m ($242m) in new equity to enable Air Canada to start its C$2bn re-equipment programme. The airline is expected to decide soon whether it will buy the Airbus 320 to replace its aging Boeing 727s.

Inspiration employees win large bonuses

BY KENNETH GOODING IN LONDON

BONUSES AVERAGING $3,000 were won by employees of Inspiration Consolidated Copper of the US in 1987 because of the surge in the copper price late in the year.

The bonuses, which cost $3m, were related to the Comex (New York Commodity Exchange) copper price - which averaged 78 cents a pound in 1987 compared with 62 cents the previous year.

The parent group, Inspiration Resources, a diversified natural resources company in which Minorco, the Luxembourg mining investment group, has a majority shareholding, also paid out bonuses averaging $700, costing $1.8m, to employees of its Canadian subsidiary, Hudson Bay Mining and Smelting.

These were based on the average prices realised on combined copper and zinc sales.

Mr Ruben Richards, president of Inspiration Resources, said yesterday that the bonuses were paid as part of agreements with the unions which had involved major wage cuts and redundancies during the long recession in copper prices.

Since Inspiration Resources was formed in 1983 it has reduced its US copper production costs to 60 cents a pound.

An expansion scheme and the introduction of new technology at its Arizona facility late this year should reduce production costs by another 5 cents a pound.

Every one cent a pound increase in the copper price currently translated to between $1.5m and $2m in annual pre-tax income for Inspiration, said Mr Richards.

European tests for Cetus drug

By Our San Francisco Correspondent

CETUS CORPORATION, a leading US biotechnology firm, has filed an application for approval to market a promising anti-cancer drug in Europe.

The application, filed with the European Community's Commission for Proprietary Medicinal Products, could lead to the sale of Interleukin-2, a bioengineered derivative of a naturally occuring immune system booster that transforms ordinary white blood cells into cancer-fighting "killer" cells. According to Cetus, sales could begin within a year if the application is successful.

Like many US pharmaceutical companies, Cetus has applied for approval of its new drug first in Europe because testing requirements are less stringent there than in the US.

The company said, however, that it expects to be able to apply for US approval later this year.

Cetus declined to identify which types of cancer its initial application covers. Interleukin-2 will, however, eventually be suited to the treatment of all types of cancer, Dr Robert Fildes, Cetus president, said.

Unix joint venture launched

BY LOUISE KEHOE IN SAN FRANCISCO

AT&T, Sun Microsystems and Xerox aim to create a new competitive force in the computer industry to challenge established leaders, including IBM and Digital Equipment through a series of joint developments and technology exchange agreements.

In a major development announced this week the three companies launched a new "graphical interface" for AT&T's Unix computer operating system.

This creates easy to use "point and click" operating commands for Unix-based computers similar to those used on Apple Computer's Macintosh.

The graphical interface, called "Open Look," is designed to broaden the appeal of Unix computers for business and office.

Although widely recognised as superior to standard personal computer operating systems, the complexities of Unix, and the lack of business applications software designed to run on it, has previously hampered its broad acceptance.

The launch of Open Look, developed by Sun with input from AT&T and technology licensed from Xerox, is seen as a major step forward in AT&T's crusade to establish Unix as an industry-wide standard and a competitive alternative to IBM and Digital Equipment operating systems.

AT&T also reaffirmed its intent to license Unix, including Open Look, to all computer makers.

Solidifying Xerox's role in the move toward "open systems" that can share software and data, Xerox and Sun yesterday announced a definitive long-term agreement covering technology exchange, joint product development and purchase or manufacture of Sun workstations by Xerox and by Xerox's European, Canadian and Japanese subsidiaries. The agreement comes after the technology alliance between the two companies last October.

The alliance between Xerox and Sun incorporates a licence for Sun to use Xerox's graphical computer display technology.

Olivetti victory, Page 28

CPC first-quarter earnings rise 35%

BY OUR FINANCIAL STAFF

CPC INTERNATIONAL, the New Jersey-based food processor, expects an increase in earnings a share this year of more than 25 per cent, excluding a 1987 special gain, although it said quarterly comparisons for the rest of the year would be less favourable than in the first quarter.

CPC earlier reported that first-quarter net earnings rose 35 per cent, from $42.8m to $58m despite a drop in sales to $1.08bn from $1.2bn.

Per share earnings rose 40 per cent to 73 cents from 52 cents a year earlier, the average number of shares in issue totalling 79.3m against 82m.

The company had previously said it expected earnings of $3.30 to $3.50 a share for 1988. In 1987, it earned $4.34 a share.

In the latest quarter, earnings of European consumer foods operations benefited from physical volume gains and from the strengthening of currencies against the dollar.

Latin American consumer foods earnings also increased strongly, due to volume gains and price increases, and operating income from corn refining was more than double that of a year earlier.

INTERNATIONAL COMPANIES AND FINANCE

Alan Friedman on the repercussions of moves to prevent a US group raising its stake in an Italian concern

Olivetti 'victory' clouds relationship with AT&T

"LAST NIGHT there was music in the streets of Ivrea. People were celebrating the fact that Olivetti will remain Italian. Some of our own executives were even moved to tears."

It was with this florid turn of phrase that Mr Carlo De Benedetti yesterday sought to portray his self-styled victory in stopping American Telephone & Telegraph (AT&T) from increasing its equity stake in Olivetti from 22 to 40 per cent.

Behind the rhetoric, however, it would appear that Mr De Benedetti's lightning visit to New York last weekend, and his apparently heated talks with AT&T, have succeeded in blocking what one Milan analyst yesterday described as "the nearest we have come to a possible takeover situation."

At the same time, this latest twist has raised serious doubts about the future relationship between Olivetti and AT&T.

The row with AT&T, which since forging its alliance with Olivetti in 1983 has been the Italian company's biggest single shareholder, has already led to speculation in Milan that the US telecommunications giant may now be considering selling all or part of its holding.

OLIVETTI'S relationship with AT&T has revolved around two points, one based firmly in marketing arrangements, and the other in technology, Terry Dodsworth, Industrial Editor, writes.

On the marketing side, AT&T hoped that the Italian company's strong European distribution network would help it move into the region's office equipment market, while Olivetti saw identical opportunities available in reverse in North America. In technology, Olivetti was to supply AT&T with desktop personal computers, while the American company would provide its medium-size minicomputer range to Olivetti.

These arrangements have had mixed success. Although AT&T sold more than 200,000 Olivetti personal computers in the US in 1986, shipments fell back last year to only 40,000. Meanwhile, AT&T's minicomputer range has gained little penetration in the fragmented European market, where Olivetti is still much stronger in Italy than in other national markets. Essentially, the Italian group has remained rooted in the personal computer business.

It has also become increasingly difficult to see how the technological relationship will develop. Only last November, Olivetti launched its new LX range of minicomputers, developed in Italy, as a central part of its drive into departmental business computing.

Olivetti said at the time that it was maintaining the AT&T line as well, but this has not convinced the market, and meanwhile the AT&T group has rushed into a spate of technology agreements with other US companies to strengthen its own position in departmental systems.

And while saying he was unable to comment on this, Mr De Benedetti yesterday noted that his main holding company, CIR, which owns 14 per cent of Olivetti, has "pre-emptive rights" to buy back the shares held by AT&T, should the US company wish to sell.

AT&T, Mr De Benedetti said yesterday, had wanted to take over management control of the Ivrea-based office automation group. "And that," the Olivetti chairman proclaimed, "is unacceptable because we would have become just a division of AT&T."

The US group, had it gone ahead and increased its stake to 40 per cent, "would have been left with an empty box because the entire management of Olivetti would have resigned."

Mr De Benedetti was yesterday being feted on the Milan bourse for having stood up to AT&T. In the Italian context it was important for Olivetti to combat the persistent rumours that Mr De Benedetti might be planning to step down as managing director or abandon the company.

He made a point of stressing his determination to "continue as shareholder, chairman and managing director for the foreseeable future."

Olivetti's shares yesterday outperformed the rest of the market and gained 4.1 per cent on the day to close at L11,505 ($9.2). But while national pride may have been the prevailing sentiment in Italy, Mr De Benedetti's apparently violent disagreement with AT&T left many analysts perplexed.

"I think it's very hard to read the whole thing. I don't understand who at the end of the day decides whether AT&T can raise its stake to 40 per cent," commented Mr Chris Moore, a former analyst at Savoury Milln in London who now heads the research department of Sige, a Milan investment bank.

Mr De Benedetti claimed that after six months of negotiations with AT&T about the original stand-still agreement (which expired this month), the US group only agreed last weekend "that it would have been an error to transform Olivetti into an operating division."

Yet only 18 months ago, Mr De Benedetti announced a renegotiation of the accord which was supposed to give Olivetti complete responsibility for the US group's personal computer strategy. And Mr Vittorio Cassoni, a former Olivetti marketing man, was "loaned" to AT&T where he now heads the personal computer division.

It has been under Mr Cassoni that AT&T has begun to achieve more solid results in its previously dismal marketing of personal computers in North America, and the improvement is noticeable in the figures.

In the light of the differences he has had with AT&T over its Olivetti share stake, Mr De Benedetti is now describing the rapport between the two companies as a "commercial relationship."

Despite the obvious cooling in relations between Ivrea and New York, the Olivetti chief argued that AT&T's drive to forge a partnership with Iri-Stet, the Italian state telecoms group, would not be affected.

Analysts in Milan suggest that preventing AT&T from achieving management control of Olivetti could actually aid the US concern's chances in Rome.

This is because the Italian state group, which is considering an AT&T proposal to form an alliance with its Italtel subsidiary, including possible telematics co-operation with Olivetti, would find it politically more difficult to do a deal if Olivetti was placed under the US group's control.

There is also talk of the state company taking a symbolic share stake in Olivetti.

But the question of Olivetti's relationship with AT&T seems almost certain to resurface in the not too distant future. The matter does not look fully resolved.

La Générale rivals in last-minute talks

BY TIM DICKSON IN BRUSSELS

A DRAMATIC last ditch effort to reach a compromise over the future of Société Générale de Belgique was made yesterday by the two shareholder camps fighting for control of the company, ahead of tomorrow's emergency general meeting in Brussels.

Lawyers acting for Mr Carlo De Benedetti, the Italian financier, and for the rival Franco-Belgian group led by Compagnie Financière de Suez, were understood to be locked in negotiations over a possible deal about the future management of Belgium's most powerful business institution.

An official cloak of silence has been thrown over the talks, but for all the public posturing by spokesmen for the two sides most analysts in Brussels are convinced that there will be no outright winner of the frantic three-month takeover battle.

The widespread expectation of a bloody and bad-tempered showdown between Mr De Benedetti and spokesmen for the Franco-Belgian group may thus prove to be misplaced.

Mr De Benedetti, who launched his assault on La Générale through Cerus, his Paris-based financial holding company, claims to speak for about 48 per cent of the Belgian holding company. His supporters include two leading Belgian businessmen – Mr André Leysen, chairman of Gevaert, and Mr Pierre Scohier, chairman of Cobepa.

The Franco-Belgian camp, which besides Suez – with 31 per cent of the shares – includes an assortment of Belgian companies led by AG, the insurance concern, says it has control of about 51 per cent of Société Générale de Belgique.

The option of withdrawal is not one that appears to be available to either camp.

But the risk of continuing for much longer without a clear strategy for a company which has traditionally exerted its influence through mostly minority stakes in more than 1,200 separate businesses are also considerable.

The big question remains as to how Mr De Benedetti's declared aim of effective management control can be reconciled with the Franco-Belgian syndicate's willingness only to share power within what Mr Maurice Lippens, of Groupe AG, described this week as a "genuine partnership."

Groupe AG income climbs 34%

GROUPE AG, Belgium's largest insurance company, has reported a 34 per cent increase in consolidated profits to BFr2.35bn ($66m) in 1987, from BFr1.75bn the previous year, AP-DJ reports from Brussels.

Premium income dipped slightly to BFr35.5bn in 1987 from BFr35.6bn in 1986. The company said, however, that 1986 figures had been inflated by extraordinary items.

Income from financial operations rose 2.8 per cent in 1987. Net gains from securities sales totalled BFr4.9bn in 1987, up from BFr2.2bn. The ordinary dividend will be raised to BFr115 in 1987, from BFr105.

Earnings at Soc Gen edge ahead

By George Graham in Paris

SOCIETE GENERALE, the fourth largest French banking group, has reported a 3.2 per cent increase in net consolidated profits, excluding minorities, to FFr2.37bn ($416m) in 1987.

Mr Marc Viénot, chairman of the recently privatised bank, said the result, which included no exceptional gains, compared favourably with the FFr2.3bn of earnings in 1986, including FFr673m of exceptional gains.

The bank has, however, reduced its provisioning effort by 31 per cent, to FFr4.96bn.

Mr Viénot said this covered Société Générale's domestic loan risks and about 50 per cent of sovereign risks. He expected the group's volume of provisions to diminish gradually over the coming years, even if the cover on risk countries rose to 75 per cent.

He said: "Our rate of provisioning in the past has a simple historical explanation: we had a single shareholder, the state, who we didn't want to pay dividends to."

Although Société Générale has used the new French regulations which allow banks not to provision potential capital losses on bonds which will be held to maturity, it did not take advantage of the option of spreading potential gains and losses over the life of the engagement.

It decided to provision its equity holdings in the "hard cores" of privatised companies, principally Compagnie Générale d'Electricité.

Gross operating income dwindled by 10 per cent in 1987 to FFr10.08bn. This included a change in the consolidation perimeter which worsened the comparison, as well as more than FFr300m of costs related to the group's privatisation in June last year.

But even without these factors, operating costs increased by about 5 per cent, more than the 3.7 per cent rise in net banking income.

Société Générale has, like other French banks, greatly increased its emphasis on consumer lending over recent years. Personal loans accounted for 27 per cent of total lending last year, more than double the 12 per cent recorded in 1984.

Commissions, as opposed to interest margins, rose to 26 per cent of total banking income, compared with 22 per cent in 1985. However, earnings from capital market activities grew by less than expected, following a fall in activity after the October crash.

The bank's fund management activities saw a decline, with total funds under management dropping to FFr108bn at the end of 1987, from FFr115bn in 1986.

Mr Viénot said this was not only the result of a decline in market values after the crash, but also a loss of market share by the main French operators as competition in the fund management sector increased.

Sulzer Brothers plans dividend increase

SULZER BROTHERS, the Swiss engineering company, is proposing an increase in its annual dividend from 10 to 11 per cent, John Wicks writes from Zurich.

This will mean payment of SFr110 per registered share of SFr1,000 nominal value and SFr11 per registered share and participation certificate of SFr100 nominal value.

Group earnings rose last year by 15 per cent, from SFr67m to SFr77m ($55.3m), after a 2 per cent rise in consolidated turnover, from SFr4.58bn to SFr4.63bn.

Net profits of the parent company improved by 18 per cent, from SFr38m to SFr45m.

Mr Werner Rey, the Swiss industrialist, has been nominated to the Sulzer board following his recent purchase of 40,000 shares.

THE DREYFUS INTERCONTINENTAL INVESTMENT FUND N.V.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of The Dreyfus Intercontinental Investment Fund N.V. ("the Fund") has been called by the Management and will take place at the registered office of the Fund, De Ruyterkade 62, Willemstad, Curaçao, Netherlands Antilles on May 12, 1988 at 11.00 o'clock in the forenoon. Stockholders of record at the close of business on Tuesday, March 22, 1988 will be entitled to receive notice of and to vote at the meeting.

AGENDA

1. Consideration of the declaration of a dividend of $0.12 per share to Stockholders of record on May 27, 1988.
2. Approval of Financial Statements for the fiscal year ended August 31, 1987.
3. Reduction of the Fund's authorized capital from 600,000 to 500,000 shares. (See Exhibit A on Form of Proxy for discussion).
4. The transaction of such other business as may properly come before the meeting, or any adjournment or adjournments thereof.

The foregoing items may be approved by a majority of the shares cast on each item. The Annual Report of the Fund containing the Financial Statements for the fiscal year ended August 31, 1987 has already been mailed to Stockholders, and copies may be obtained upon request from the principal office of The Dreyfus Intercontinental Investment Fund N.V., Post Office Box N3712, Nassau, N.P., Bahama Islands or from the offices of the Paying Agents listed below without cost to the Stockholder.

Holders of bearer shares will be admitted to the meeting upon presentation of their Certificates or presentation of a voucher which may be obtained from any of the Paying Agents.

Holders of bearer shares may vote by proxy by mailing a form of proxy and a voucher obtained from one of the Paying Agents to Mr. John Buchanan, The Dreyfus Intercontinental Investment Fund N.V., c/o NatWest Trust Corporation (Bahamas) Limited (formerly RoyWest Trust Corporation (Bahamas) Limited), Mutual Funds Department, P.O. Box N7785, Nassau, N.P., Bahama Islands. The form of proxy and voucher must be received by Mr. Buchanan by May 11, 1988 to be voted at the meeting.

The Custodians of the Fund are The Bank of New York, 90 Washington Street, New York, New York, U.S.A. and NatWest Trust Corporation (Bahamas) Limited. All inquiries should be directed to NatWest Trust Corporation (Bahamas) Limited, Mutual Funds Department, P.O. Box N7785, Nassau, N.P., Bahama Islands. Inquiries may also be directed to Dreyfus GmbH, Maximilianstrasse 24, D-8000, Munich 22, West Germany. Tel. 089/220702. Telex 5/29392.

Bowling Green Company Limited
Managing Director

PAYING AGENTS FOR
THE DREYFUS INTERCONTINENTAL INVESTMENT FUND N.V.

Morgan Grenfell & Co. Limited 23 Great Winchester Street London EC2P 2AX England	Deutsche Bank AG Grosse Gallusstrasse 10-14 6 Frankfurt/Main 1 West Germany
Banque Internationale à Luxembourg 2, Boulevard Royal Luxembourg-Ville Luxembourg 2205	NatWest Trust Corporation (Bahamas) Limited Mutual Funds Department P.O. Box N7785 Nassau, N.P., Bahama Islands

crédit foncier de france

£100,000,000

Guaranteed Floating Rate Notes 2000

unconditionally guaranteed, as to payment of principal and interest, by

The Republic of France

In accordance with the provisions of the Notes, notice is hereby given that, for the three month period, 11th April, 1988 to 11th July, 1988, the Notes will bear interest at the rate of 8⅙ per cent. per annum. Coupon No. 14 will therefore be payable at the rate of £516.69 per coupon from 11th July, 1988.

S. G. Warburg & Co. Ltd.
Agent Bank

Marine Midland Finance N.V.

U.S. $125,000,000

Guaranteed Floating Rate Subordinated Notes due 1994

For the three months 11th April, 1988 to 11th July, 1988 Notes will carry an interest rate of 7⁵⁄₁₆% per annum with a coupon amount of U.S. $18.48 per U.S. $1,000 Note and U.S. $184.84 per U.S. $10,000 Note. The relevant interest payment date will be 11th July, 1988.

Listed on the London Stock Exchange

Bankers Trust Company, London — Agent Bank

NOTICE TO THE SHAREHOLDERS AND HOLDERS OF SUBORDINATED CONVERTIBLE DEBENTURES IN SWEDISH MATCH AB

NOTICE is HEREBY given that the Board of Directors of Stora Kopparbergs Bergslags AB ("STORA"), a Swedish corporation, decided on 9th March, 1988 to make an offer to the shareholders and the holders of subordinated convertible debentures in Swedish Match AB ("Swedish Match"), a Swedish corporation, under which such holders are invited to sell their shares and subordinated convertible debentures to STORA.

Terms of the offer

- each restricted or unrestricted class A share in Swedish Match will be exchanged for SEK 150 in cash.
- *each unrestricted class B share in Swedish Match will be exchanged for SEK 137 in cash.*
- each subordinated convertible debenture issued by Swedish Match with a nominal value of SEK 83 will be exchanged for SEK 145.25 in cash, equal to 175 per cent. of the nominal value. *Subordinated convertible debentures which cannot be evenly divided by SEK 83 will be exchanged for a* cash amount equal to 175 per cent. of the nominal value.

Shareholders who accept the offer are, notwithstanding the sale of their shares to STORA, entitled to receive dividends on their Swedish Match shares in respect of the 1987 financial year. The holders of subordinated convertible debentures will, notwithstanding the sale of their subordinated convertible debentures to STORA, receive interest up to and including the coupon date, 15th August, 1988.

Conditions of the offer

The offer is conditional on STORA acquiring more than 90 per cent. of the shares and of the votes in Swedish Match, after full conversion of the outstanding subordinated convertible debentures. STORA reserves the right, however, to proceed with the transaction even if a lesser acceptance is forthcoming.

Transfer costs

The cost of any turnover taxes and commissions will be met by STORA.

Period of acceptance

Those wishing to accept STORA's offer should before 6th May, 1988 deliver their shares and/or subordinated convertible debentures, transferred in blank and accompanied by the stipulated acceptance form, to:
Skandinaviska Enskilda Banken
Issue Department
Sergels Torg 2
S-106 40 STOCKHOLM, Sweden
A receipt will be issued on delivery of the shares and/or subordinated convertible debentures.

Confirmation

A confirmation will be sent to shareholders upon fulfilment of the above conditions and a notice will be published in the press. The cash payment will then be made on presentation of the receipt at the office or department which issued the receipt. It is expected that payment will be made at the end of May, 1988. STORA reserves the right to extend the offer period and, if required, delay the date of payment. If such an extension or delay is made, before the above conditions of the transactions have been fulfilled or waived by STORA, shareholders and holders of subordinated convertible debentures who have already delivered their shares or subordinated convertible debentures respectively have the right to withdraw their acceptance of the offer. Such withdrawal can be made within a week of the notice of extension or delay.

This offer is made by Enskilda Securities, Skandinaviska Enskilda Limited ("Enskilda Securities") acting as agent for Enskilda Fondkommission, Skandinaviska Enskilda Banken ("Enskilda Fondkommission") itself an agent for STORA in this respect. Enskilda Fondkommission is the domestic investment banking division of Skandinaviska Enskilda Banken, the parent bank of Enskilda Securities. Copies of the offer document relating to this offer are available from Enskilda Securities, Skandinaviska Enskilda Limited, 26 Finsbury Square, London EC2A 1DS.

April, 1988

Company Notices

DAVIES & METCALFE p.l.c.

NOTICE IS HEREBY GIVEN that the Transfer Books of the Company will be closed from 20th April, 1988 to 22nd April, 1988, both dates inclusive.

By order of the Board
R. ALLEN,
Secretary

Injector Works,
Romiley,
Cheshire SK6 3AH

MALAYSIA

US$250,000,000

Floating Rate Notes due 1992

In accordance with the provisions of the Notes, notice is hereby given that the rate of interest for the period from 11th April, 1988 to 11th October, 1988 has been fixed at 7.60 per cent per annum.

On 11th October, 1988 interest of US$381.26 per US$10,000 nominal amount of the Notes and interest of US$9531.25 per US$250,000 nominal amount of the Notes will be due against Interest Coupon No. 13.

Swiss Bank Corporation Investment Banking Ltd
Reference Agent

THE MORTGAGE BANK AND FINANCIAL ADMINISTRATION AGENCY OF THE KINGDOM OF DENMARK

£50,000,000 Guaranteed Floating Rate Notes Due 1994
Series 91
Unconditionally guaranteed by
THE KINGDOM OF DENMARK

In accordance with the terms and conditions of the Notes, notice is hereby given that for the three months interest period from the 11th April 1988 to 11th July 1988, the Notes will carry a rate of interest of 8⅜% per annum. The relevant Interest Payment Date will be 11th July 1988. The Coupon Amount per £5,000 will be £104.12 payable against Surrender of Coupon No: 18.

Hambros Bank Limited
Agent Bank

INTL. COMPANIES AND FINANCE

Maggie Ford looks at the changing corporate climate in South Korea

Seoul told to slacken the rules

"OH DEAR," said the finance executive of a large South Korean company, "if he goes on like this he'll get sacked by the chairman." But like many other businessmen at this week's international investment conference in Seoul, he probably agreed with the speaker's message.

"Big Brother," in the form of the Government, should stop interfering in South Korean business, one of the country's leading stockbrokers said in his speech. Enough damage to the economy and the society had been done already.

For years, managers of companies in the highly successful, newly industrialised country have resented the decisions made by certain elements of the Government about their activities. But until now, individuals would not have dared to protest, and certainly not in public.

While in many cases the big companies and the families that own them have profited from favoured treatment over loans, development projects or expansion plans, they have almost always found that there has been a pay-off in the end.

The penalty for failing to do the Government's bidding, whether by refusing to provide political donations, arguing against a request to rescue an ailing company or being found out evading the planners' rules could sometimes be harsh.

Lest anyone be unaware of that, the Government in 1985 forced into bankruptcy Kukje, one of South Korea's top 10 business groups, for striking an independent political line. In the more democratic atmosphere now prevailing, the former chairman of the company has now filed a suit for the return of his company's assets.

Economic democracy

The new atmosphere allowing public criticism was sparked off last June when businessmen and stockbrokers joined students in the streets of Seoul, defying riot police using tear gas, to demand the introduction of democracy.

Apart from elections, the businessman also wanted economic democracy — an end to corruption, the introduction of free market forces, fair negotiations with exploited industrial workers and an opening up of the economy.

This week the businessmen spoke out, secure in the knowledge that many of the changes they want have already been forced on the Government because of the sheer scale of South Korea's economic miracle.

Speaker after speaker, particularly in the financial sector, complained about unnecessary regulation and the primitive banking sector, used for years simply as a cash cow to finance government investment plans.

The strong controls on foreign exchange, justifiable when South Korea was running current account deficits and was desperate to prevent capital flight, were now an anachronism, they said. The result of the measures had meant severe underdevelopment of the financial sector, leaving South Korea at a disadvantage in the modern financial world.

They had caused income inequalities, unbalanced industrial development, and a confrontational relationship between workers and management, the businessmen complained.

Their views found some sympathy from Mr Kim Kun, new governor of the central bank, whose speech suggested that the authorities had in mind a broader range of financial instruments and freer interest rates.

Foreign implications

Many of the opinions expressed at the conference (organised by Institutional Investor magazine) are held widely in the South Korean economic community, which is predominantly young and highly educated. While the views may not be shared by the old families who retain control of South Korea's top companies, these patriarchs are unlikely to be unaware of the attitudes of the majority of their professional management.

It is too early to say what the implications for foreign companies and governments doing business in the country might be, but the new attitude suggests that *the Korean tradition* of one-man rule, in government or business, may not hold sway forever. And if South Korea can be so successful under what its businessmen see as strong constraints, competitors are wondering, what will it be like without them?

Settlement reached on Cumberland Credit

BY BRUCE JACQUES IN SYDNEY

ONE OF Australia's most confusing recent takeover sagas came virtually to a close yesterday when the National Companies and Securities Commission, the stock market watchdog, reached an out-of-court settlement in its actions over Cumberland Credit, a cash-rich listed company.

The settlement was reached with Mr Larry Adler's FAI Insurances and Mr Ian Joye's Coronet Equities and involve the NCSC withdrawing its declarations of "unacceptable conduct" against them. Proceedings and counter-*claims have been dismissed.*

The NCSC was seeking to vest ownership of nearly 40m Cumberland shares (about 19.75 per cent of the capital) and 50m options which it would then have sold.

The involvement of the regulatory body in the Cumberland situation began early this year after Mr Adler sold his stake in the company — the one the NCSC was seeking to vest — to Coronet.

The exit damaged Mr Adler's reputation, as investors had subscribed A$200m (US$149m) to Cumberland barely a year earlier when it floated as a virtual cash *shell dubbed by the investment* community, "son of FAI." The company's only asset besides cash was Mr Adler as chairman.

The Adler exit triggered a puzzling, rapid-fire series of deals and revelations, one of which was a A$170m full bid for Cumberland by an extremely unhappy major shareholder — TNT, Sir Peter Abeles's transport group. Others, including Mr Alan Bond and gold entrepreneur Mr Joseph Gutnick, were also reported buyers of Cumberland scrip.

But the key to yesterday's settlement seems to have been FAI's *decision early in March to sort* out the mess by making a full unconditional bid for Cumberland at 90 cents a share, worth about A$190m. Although lower than the A$1 a share Mr Adler received for the parcel sold to Coronet, the bid allowed Cumberland shareholders to exit at what appeared a reasonable post-crash price.

While the settlement is by no means a victory for the NCSC, a commission official said yesterday no adverse consequences had occurred in the marketplace from the facts leading to its "unacceptable conduct" declarations.

Sharp rise in Samba profits

SAUDI AMERICAN Bank (Samba), in which Citicorp of the US owns 40 per cent, more than *trebled net profits to SR66.4m* ($17.7m) in the three months to March, up from SR20.1m, Our Financial Staff writes.

It is the first of the kingdom's nine joint venture banks to report first-quarter results, adding evidence of an improving trend.

Samba reduced provisions and transfers to reserves to SR30m from SR41.6m while lifting total assets to SR19.6bn from SR14.7bn.

Renison expands tin interests

BY OUR SYDNEY CORRESPONDENT

RENISON Goldfields Consolidated (RGC), a 49 per cent Australian affiliate of the UK's Con*solidated Gold Fields, has bought* two rival resources companies out of the tin business.

RGC paid A$50m (US$37.3m) in total to CSR and Boral for Kajuara Mining, which the two had controlled jointly. Kajuara has a 75 per cent interest in PT Koba Tin, an alluvial tin mine on Bangka Island in Indonesia.

RGC is Australia's largest tin producer from its Renison mine in Tasmania. The expansion will boost its capacity and give it closer access to the South-East Asian region which dominates *world tin production.*

For the vendors, the divestment is logical. Boral's mainstream activities are in the building industry and CSR has been shedding resources assets for some time. The sale is, in fact, a strong start to CSR's current attempts to sell its entire minerals division for a reputed A$100m.

The CSR sale is being conducted by tender and was divided into three parts comprising the Kajuara interest, the Indonesian gold properties — probably the *most extensive held by an Aus*tralian company — and the company's Australian exploration interests. Further announcements are likely on these asset sales with leading contenders believed to include Shell and Pancontinental Mining.

Koba produces tin through a combination of dredge and gravel pump operations with concentrates smelted at the PT Timah smelter, also on Bangka Island.

Saudi Arabian share issue meets lukewarm response

BY FINN BARRE IN RIYADH

THE FIRST share flotation in Saudi Arabia for three years has met a lukewarm response and its deadline has been extended after an apparent undersubscription.

The SR1bn ($267.8m) offering by Taiba Investment and Real Estate Development Company is backed by the Riyadh Government and domestic monetary conditions are relatively liquid. The poor response therefore worries local financial experts.

Two other companies are due to float their shares soon — Al-Jouf Agricultural Company and Al-Rajhi Banking and Investment Corporation. The offer in May by Al-Rajhi — a money changer which is converting itself into the kingdom's third largest bank — is being keenly awaited, however, and investors may be holding back funds for this.

Aside from this, the Taiba flotation was thought to have everything going for it. The company was established in February under royal decree, with Prince Abdul Majeed bin Abdulaziz as its chairman and with the expectation that it would win most of the billions of riyals worth of development contracts for building pilgrim facilities in Medina, Islam's second holiest city. It will also be involved in agriculture, maintenance and property rental.

The Ministry of Haj and Endowments, which is awarding most of the contracts, has tentatively agreed to underwrite the offering and key state agencies are taking up 40 per cent of the shares. The level of subscriptions by the original closing date was not specified.

Low demand for Taiba shares may mean that the Al-Jouf flotation later this month will be undersubscribed. Saudi Arabia's last public offering, for Eastern Agricultural Development Company (Sadco) in 1985, was in a similar sector and fell slightly below a full take-up.

John Wicks on a plan to increase the scope of Swiss finance laws

Berne may widen definition of banks

A LARGE number of companies in the Swiss financial services sector will become subject to banking legislation, if the Swiss Government accepts proposals by the country's Banking Commission.

Hitherto, Swiss banking legislation has been based on balance-sheet transactions and applied only to banks and finance companies which "publicly advertise the acceptance of funds." Portfolio management and securities firms are subject to the law only if they also engage in banking activities.

The Banking Commission is now to present to the Finance Ministry proposed amendments to the current bank ordinance which extend the definition of a "bank." The commission claims that existing legislation does not take into account the marked shift into non-interest earning business which has taken place in recent years.

It points out that the functioning of credit and capital markets could be jeopardised by the difficulties of a major financial intermediary which refinanced its activities with a large number of banks and institutional investors.

At the same time, the commission feels that the principle of banking reciprocity "cannot be fully realised when banks from countries which grant no or only partial reciprocal rights are quite free to operate on Swiss financial markets, particularly in the issue business, through a quasi-bank finance company." This obviously refers primarily to the many Japanese houses which have set up shop in Switzerland in recent years.

The commission also doubts whether investors who buy capital market paper through issuing houses are adequately protected, pointing out that such protection as prospectus liability is guaranteed only in the case of a minimum solvency and the permanency of the issuing houses.

Additionally, the commission believes that competition is distorted when finance companies are permitted to carry out such "classical banking operations" as capital market issuance without being subject to the same standards and controls as the banks.

The commission therefore wants to extend the definition of a bank to cover:

● Companies which finance an "unspecified number of persons or corporations who do not make up a business entity" by large-scale refinancing from banks, finance and insurance companies, and other institutional investors;

● Companies actively primarily in the financial sector which conduct large-scale, off balance-sheet transactions with various partners;

● Issuing houses.

Within the existing framework, finance companies would in future be regarded as "publicly advertising the acceptance of funds" – and thus subject to the act – if they accept funds from their "regular clientele."

In connection with the growth of non-interest business, the commission has released figures from a survey made of 198 banks in April of last year. This shows that, excluding clients' deposits and managed portfolios, the banks accounted for some SFr791bn in off balance-sheet business. Of this sum, SFr555bn alone was made up of foreign exchange futures. Over three-quarters of the total was accounted for by the "big five" Swiss banks.

The commission welcomes the partial liberalisation of Japanese concession practice, but makes it clear that reciprocal grants of banking concessions in Switzerland will continue to be made dependent on concrete improvements for Swiss banks in Japan. The situation has, however, eased since two Swiss banks were given seats on the Tokyo Stock Exchange last December.

Although reciprocity can no longer be guaranteed in the Lebanon, Lebanese banks in Switzerland are to retain their concessions in that they are "not responsible for the situation there."

The commission expresses its approval of the current attempts by the Cooke Committee of the Bank for International Settlements to introduce a convergence of international standards for banks' equity ratio requirements.

However Dr Hermann Bodenmann, chairman of the commission, warned that international harmonisation would not be allowed to lead to a reduction of the high ratios already demanded from Swiss banks. The commission feels that each country should continue to be able to impose national requirements in excess of international minima.

Dr Kurt Hauri, director of the commission, said a number of Swiss banks and auditors had asked for guidance on the treatment of bank losses arising from the stock market crash. The commission, which examined Swiss banks' 1987 annual reports with this in mind, found that they had frequently given a false impression by playing down losses "and almost dyeing red figures black."

Professor Alain Hirsch, the commission's vice-chairman, drew attention to the increase in the number of Swiss investment funds established abroad. These funds, which are based primarily in Luxembourg or Grand Cayman and advertised widely in the Swiss press, total some SFr4.5bn.

The commission is considering to what extent they are taking advantage of a loophole in Swiss investment fund law where they include investments – such as those in individual public authority securities exceeding 7.5 per cent of total assets – which are not admissible in Switzerland.

In future, Swiss investment funds will be permitted to purchase call and put options, as well as foreign currency futures to the extent that the fund controls matching assets in the same currency.

For the time being, however, the commission will not allow funds to buy positions in stock index or interest futures instruments.

THE SWISS Banking Commission has also carried out an investigation aimed at ascertaining whether Swiss banks acted irregularly in connection with the assets of ex-President Ferdinand Marcos of the Philippines, writes John Wicks.

The investigation showed the banks in question had known the identity of the beneficiary at all times and had not tried to hide it from the authorities. This had been proved by the fact that the assets were frozen.

In connection with the Marcos case and that of Mr Jean-Claude Duvalier, the former Haitian head of state, the commission points out "how delicate a situation it can be for banks to accept large scale funds from foreign rulers."

It demands that "the management and not subordinates should take everything into account to decide whether such exposed business relations should be entered into or kept up." The commission calls on Swiss banks to issue clear guidelines in this respect.

Dr Bodenmann said that the acceptance of sums as large as those involved in the Marcos affair "had not promoted the reputation of Swiss banking."

Compromise reached in Prouvost battle

BY GEORGE GRAHAM IN PARIS

COMBATANTS in the battle for Prouvost, the leading French textile group, have reached a negotiated peace which will divide the company's activities.

Chargeurs, the diversified group headed by Mr Nicolas Seydoux which last summer unsuccessfully tried to take control of Prouvost, is to buy the group's wool trading, carding and weaving activities for around FFr1.8bn ($315m). In return it will sell back the 46 per cent stake it had built up in Prouvost to Vitos-Etablissements Vitoux (VEV), the holding company controlled by Mr Christian Derveloy, Prouvost's managing director, for some FFr350m.

The agreement resolves a stalemate which followed one of the most bitter stock market battles seen in France. "We had to find a solution," said Prouvost.

Prouvost will shed all its upstream activities, accounting for around FFr3.5bn of its FFr8.39bn annual turnover, and concentrate mainly on clothing through the Rodier brand and its Pingouin knitting wools, as well as some areas of diversification such as mechanical printing.

Chargeurs had already built up its woollens division with the purchase of Ets. Paul et Jean Tiberghien and André Rondière. Prouvost says the price Chargeurs paid for its 46 per cent stake last summer valued the whole group at FFr2bn, compared with the FFr1.8bn it is now paying for the trading, carding and weaving operations alone.

Liffe DM contract details agreed

By Haig Simonian in Frankfurt

THE LONDON International Financial Futures Exchange (Liffe) could start trading its planned new West German federal government bond contract in the third quarter of this year.

The target date for the new futures contract, which will be based on the 10 most recently issued 10-year federal government bonds, remains mid-1988, said Mr Michael Jenkins, Liffe's managing director.

However, the shortage of trading capacity on Liffe at the moment means the launch may have to await its planned rights issue next month, which will give existing seat-holders the chance to buy additional trading rights.

Specifications for the new contract have now been prepared after talks with potential users, including leading German banks in London and domestically. The details are now "pretty much agreed," says Mr Jenkins.

However, it is still uncertain whether the new contract will work on a principle of rotation. The German government usually issues DM16bn of 10-year debt roughly every month. It is likely that the oldest of the 10 bonds comprising Liffe's notional bond will drop out and be replaced by the newest issue to keep the contract up to date.

Liffe has identified a wide number of potential users for the new contract apart from such obvious sources as market makers and end-investors in German government bonds. The exchange has also found interest on banks' swaps desks – a broader and more international group of users already familiar with futures – which should help to provide support and keep the contract liquid.

Positive signals have also emerged from large institutional investors, notably US mutual funds which have launched foreign bond funds.

"We have had expressions of widespread interest," says Liffe. "Now we have to see to what extent that will be translated into committed support. If we are happy, we will ask our board to give the go-ahead."

Liffe remains interested in possible co-operation with the planned new German futures exchange, which is due to get off the ground late next year. Though equity options are its first priority, its backers have shown more interest in domestic government bond products since Liffe's initiative.

Some bankers are sceptical that there is enough room in Europe for the two exchanges to trade similar contracts successfully in the same time zone. There are also some doubts about the willingness of Deutsche Bank, one of the German scheme's backers, to enforce a ban it has said it will impose on staff from using the Liffe contract, should the latter prove to be a success.

Five-year loan for Asarco

By Stephen Fidler, Euromarkets Correspondent

TWO US companies and the US subsidiary of an Italian corporation are raising finance in the international credit market. Credit Suisse First Boston said yesterday as arranger of all three transactions.

The largest is a $200m, five-year revolving credit for the US mining concern, Asarco, the terms of which depend on the company's credit rating.

As currently rated, there is a ⅛ per cent commitment fee, and a margin over London interbank offered rates of ⅜ percentage point for the first half and ½ point on the rest. If the rating is upgraded sufficiently, then a ⅛ per cent commitment fee is payable and a uniform ⅜ point margin.

Kerr-McGee, the oil and gas exploration and development group, and its UK subsidiary borrowing under its parent's guarantee are raising $150m, also through a five-year revolving credit.

It carries a commitment fee of 10 basis points, a margin of 25 basis points for the first half and 35 basis points for the second half of drawings. The facility may be used as back-up for a commercial paper programme.

CSFB is also syndicating a $100m letter of credit facility for the Pirelli Financial Services unit of the Italian tyre maker to be used in support of its US commercial paper programme.

The maturity is initially set at November 1989, although it can be extended at the option of the lenders. A commitment fee of 10 basis points is payable on the unused portion of the facility and 12½ basis points is payable on average outstandings under the programme. Credit Suisse will provide the letter of credit and, technically, the banks will indemnify Credit Suisse.

Enthusiastic response to Y50bn issue by Sweden

BY ALEXANDER NICOLL, EUROMARKETS EDITOR

THE YEN sector of the Eurobond market bounded into action yesterday with a Y50bn issue for Sweden, the first large sovereign issue for several weeks. It apparently found investors keen to buy yen paper.

Their enthusiasm came despite the becalming of most bond markets as officials of industrialised countries hold a Group of Seven meeting in Washington today and as dealers await US February trade data, due tomorrow.

The Eurodollar market is extremely cautious in view of the vulnerability of currency markets to news from Washington. But the shortage of liquid, tradeable yen paper seemed to overcome such nervousness. Syndicate managers pointed out that the yen/dollar rate appeared to have been stabilising.

At present, stability is a higher priority for investors than the speculative gains which might be made from currency movements. In addition, huge liquidity in Japan is thought to likely to keep downward pressure on interest rates there.

The Sweden issue also found a gap in the market with its five-year maturity. Nomura, which had won the mandate against competition, priced it with terms which were viewed as fair by its peers. The 4⅝ per cent coupon and 101⅛ pricing gave a yield of 4.71 per cent at launch when fees are taken into account.

This compared with a market yield of between 4.65 and 4.70 per cent on an outstanding European Community 1993 issue with a 4¾ per cent coupon. By the end of the day, the Swedish issue was trading at a discount smaller than its 1⅞ per cent fees, bid 1⅝ points below issue price, giving a yield comparable with the EC's.

Other yen issues are thought likely to emerge, although there could be a pause while the market digests Sweden.

Dollar bonds, meanwhile, showed small gains despite New York's weakness on Monday, but trading remained very quiet.

Investors also continue to be attracted to the higher coupon sector, including Australian dollars in which there were two further issues.

Commonwealth Bank of Australia made a A$100m issue, relatively large for the sector, with Australia's guarantee. Hambros Bank, which had brought a successful issue for Toronto Dominion Bank the previous day, felt confident in launching the five-year deal with a 12⅝ per cent coupon and pricing of 101⅞.

INTERNATIONAL BONDS

Strong demand was suggested by the bid price of 1.65 points below issue price, well within the 2 per cent total fees.

Landesbank Rheinland-Pfalz Girozentrale led a A$50m issue for its own Luxembourg subsidiary. The three-year deal, being swapped into floating-rate dollars, was priced at 101⅝ with a 12⅛ per cent coupon and was bid at a discount equal to its 1.5 per cent fees.

The Japanese equity warrant bond sector also continued healthily, with substantial cuts in coupons for two issues launched last week for Taisei Corporation, a construction company. The four-year issue's coupon was fixed at 3⅝ per cent, compared with an indicated 4 per cent, and the five-year's at 4⅛ per cent, against an indicated 4½ per cent.

One new issue emerged, led by Daiwa Europe for Kobe Elecric Railway. The $50m five-year bonds were assigned an indicated coupon at the currently standard level of 4⅛ per cent.

In West Germany, Japan Development Bank, which borrows with Japan's guarantee, made a DM300m seven-year Eurobond issue, priced by Deutsche Bank at 101¼ with a 5⅝ per cent coupon. Despite quite tight pricing, it met good demand and was bid 1⅛ points below issue price, well within fees.

Domestic and Euro D-Mark bonds were virtually unchanged in quiet business, with an easier bias following New York's fall.

Swiss franc foreign bonds, however, saw a small burst of issuing activity. The Metropolis of Tokyo, which also has Japan's guarantee, issued SFr100m of five-year bonds priced at 100⅛ led by Swiss Bank Corporation with a 3⅞ per cent coupon. The grey market viewed it well.

Mountleigh Group, the British property group, met a less eager reception with a SFr150m seven-year bond issued by a Dutch financing unit and led by Union Bank of Switzerland. It was priced at 100⅜ with a 5¼ per cent coupon.

Fuji Electro-Chemical, a company controlled by Fujitsu, issued SFr60m of five-year convertible bonds led by Credit Suisse with an indicated coupon of 1⅛ per cent. A SFr80m convertible issue for Tower Real Estate had its coupon cut to ⅝ per cent from an indicated ¾.

Elsewhere, Nordic Investment Bank issued DKr500m of zero-coupon bonds, led by Privatbanken and divided equally into a four-year tranche priced at 70⅜ and a five-year tranche at 63⅞.

European Investment Bank issued Ecu75m of seven-year bonds led by Credit Agricole, with a 7⅝ per cent coupon and price of 101⅛.

Arabex flotation raises A$5m

BY ANGELA DIXON IN DUBAI

ARABEX PETROLEUM, an oil exploration company with interests in the Gulf of Oman and Colombia, has raised A$5m (US$3.7m) by floating about 40 per cent of its equity in Australia.

A joint venture with Broken Hill Proprietary has secured strategic acreage covering almost the entire Gulf of Oman just outside the Straits of Hormuz. Arabex holds 8 per cent of the 12m acre main concession and is extending co-operation with BHP over most of the Middle East.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on April 12

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Belgium 5⅛ 92	55	103	103¼	0	0	4.61
Belgium 4⅝ 94	45	98¼	98½	-0⅛	-0¼	4.94
Canada 4⅞ 92	80	99¾	99½	-0⅛	-0¼	4.54
Elec. De France 5⅛ 94	20	101	101½	-0⅛	-0¼	4.88
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

U.S. DOLLAR STRAIGHTS; DEUTSCHE MARK STRAIGHTS; SWISS FRANC STRAIGHTS; OTHER STRAIGHTS; FLOATING RATE NOTES; CONVERTIBLE BONDS: [illegible]

* No information available-previous day's price

† Only one market maker supplied a price

UK COMPANY NEWS

Savoy Hotel lifts profit to £14.3m as margins rise

BY VANESSA HOULDER

The Savoy Hotel yesterday announced pre-tax profits of £14.3m for 1987, an increase of 18 per cent on the previous year's £12.1m. Turnover was up 14 per cent, from £64.8m to £74.1m.

Mr Giles Shepard, managing director, said the company had achieved a further improvement in margins during 1987, while maintaining the tradition of personal service and attention.

An extensive programme of capital improvements was carried out during the year at a total cost of £12.2m, in addition to £5m spent on normal maintenance, repairs and renewal. Depreciation, representing the cost of capital projects in previous years, increased by 29 per cent to £2.9m.

Investment income for the year was £266,000 (£520,000); interest payable £200,000 (£181,000); £4.9m tax, reflecting a charge of 35 per cent (31 per cent). Profit attributable to shareholders was £9.4m (£8.4m).

Earnings per share for the 'A' class of 10p shares increased from 29.59p to 33p and the proposed dividend will be lifted from 4p to 5p. Earnings per 'B' 5p share were up from 14.79p to 16.50p, giving rise to a dividend of 2.5p (2p).

Alan Harper

Giles Shepard - a tradition of personal service and attention was being maintained.

MAI lifts AGB stake to 6.1%

BY CLAY HARRIS

MAI, money broking and outdoor poster group, has increased its stake in AGB Research, Britain's largest market research company, to 6.14 per cent. The investment was described yesterday as friendly and long-term.

Although MAI has been buying shares in AGB for several months, its total holding passed the 5 per cent disclosure level only last week.

It is already the largest outside investor in AGB's US project for electronic monitoring of TV audiences. Sir Bernard Audley, AGB chairman, is a non-executive director of MAI.

The latest share purchases were welcomed by Mr John Napier, AGB chief executive, who said: "I'd rather have shares held by my friends than by my enemies."

AGB shares, which rose by 9p on Monday after speculation about the MAI stake in the weekend press, added another 8p to 218p yesterday to give the company a market value of £93.8m.

S&N rejects formula to buy out Langdale holders

BY CLAY HARRIS

NEGOTIATIONS OVER the terms at which Scottish & Newcastle Breweries will buy out its partners in Langdale, a Lake District and Iberian timeshare operator, are close to impasse after the brewer's rejection of a compromise formula.

S&N inherited a 50 per cent stake in Langdale when it took over Blackburn-based brewer Matthew Brown last October.

In January, holders of the other 50 per cent – including four institutions and Langdale directors – exercised a "put" option to oblige S&N to buy out their interest.

Ifincorp Earl, the mini-merchant bank representing independent shareholders, said yesterday its clients had been angered by S&N's rejection of terms which included an asset-based initial consideration followed by performance-linked payments.

Matthew Brown paid £12.6m for its stake last July. Although S&N expressed scepticism during the takeover battle about the wisdom of the acquisition, it now sees benefits in owning the timeshare company.

At the time of Matthew Brown's investment, which included an £8m cash injection, Langdale warranted pre-tax profits of £1.4m for the 18 months to May 3 1987. It estimated the market value of its net assets at £16.5m.

The four institutional shareholders are Electra Investment Trust, Midland Montagu, Foreign & Colonial and First National Bank of Boston.

R – R buys nuclear components supplier

By David Fishlock, Science Editor

Rolls-Royce is to buy the Hartlepool site of Foster Wheeler Power Products from the US group Foster Wheeler Corporation for an undisclosed price.

The factory makes steam generators and other components for Royal Navy nuclear submarines, as well as industrial steam-raising plant.

It is understood that the purchase has been made in order to maintain security of supply of nuclear components for Rolls-Royce and Associates, the defence consortium making submarine reactors.

Foster Wheeler is expected to relinquish its 15 per cent shareholding in Rolls-Royce and Associates leaving Rolls-Royce as majority and Babcock Energy as minority shareholders. Vickers relinquished its shareholding in the consortium earlier this year.

The consortium has reactor contracts for three of the four Trident submarines planned by the Navy, and is completing the nuclear work for the Trafalgar series of hunter-killer submarines.

Rolls-Royce is also in discussions with the Canadian Government for the nuclear contracts for its proposed fleet of ten nuclear submarines.

Foster Wheeler said it understood that Rolls-Royce would be employing 280 of the 300 employees at the 40-acre Hartlepool site, and 36 of the 56 engineers in its nuclear division in London. The remainder had been offered jobs by Foster Wheeler.

Debenham Tewson acquisition

By Paul Cheeseright, Property Correspondent

Debenham Tewson and Chinnocks, chartered surveyor, is using its paper for the first time since flotation last July to acquire Chesshire Gibson, one of the three largest practices of chartered surveyors and estate agents in the Midlands.

The deal puts a value of £5.56m on Chesshire Gibson. Debenham Tewson is meeting the price by issuing 3.28m new shares. The Chesshire Gibson partners will retain 2.14m of these shares. The rest have been placed with institutions at 170p a share.

This is 2p under Monday's closing price, just before the deal was announced. Debenham Tewson shares closed yesterday at 175p.

The merger is part of the continuing realignment among chartered surveyors. The other two large Midlands practices have merged recently - Colliers Bigwood and Bewlay with Chesterton, and Grimley with J R Eve. Although Chesshire Gibson, Colliers Bigwood and Grimley are large in regional terms they are only medium-sized on the national scale.

Debenham Tewson is active throughout the UK, but Mr Richard Lay, chairman, said the acquisition would "consolidate the work we can do in the Midlands." At the same time, he noted, "we are making an investment in an area where the economic recovery has gathered pace."

In the year to December, Chesshire Gibson made an unaudited pretax profit of £516,000 (£258,000). Its contribution to Debenham Tewson profits will not show until next financial year. Debenham Tewson had pre-tax earnings of £2.14m in the six months to October and forecast increased turnover for the second half. Mr Lay said yesterday that "conditions in the property market have been very buoyant."

Only 34% of MMEC share offer taken up

By Fiona Thompson

The offer for sale of Merchant Manufactory Estate Company, the property investment and development group headed by Mr Paul de Savary, has flopped. In the worst performance of an offer for sale so far this year, 65.8 per cent of the issue was left with the underwriters.

MMEC last Wednesday offered 11m shares, 40 per cent of the enlarged equity, at 95p each, to raise a total of £10m. Just 715 applications for 3.77m shares were received, representing 34.2 per cent of the issue.

The balance, 7.23m shares, have been taken up by Chase Investment Bank, the underwriters.

The offer price of 95p was at a substantial premium to the net asset value per share of 53p.

SHARE STAKES

Changes in share stakes announced in the past week included:

A. Goldberg & Sons - Charterhall has increased its holding from 1.9m ordinary shares to 2.1m (12.3%).

Control Securities - Mountleigh Group has acquired 1.4m ordinary shares. Together with 38.1m ordinary, subject to shareholders' approval, Mountleigh will hold 48.94m ordinary (18.05 per cent of the enlarged share capital).

Fleming Japan Investment - the Kuwaiti Investment Office has reduced its holding to 12.07m shares (15.7 per cent).

UTC Group - Mr J.C. Mattock, deputy chairman, has sold 200,000 shares and now holds 1.05m (7.22 per cent).

Marling Industries - Mr N.R.Puri has disposed of his personal holding and as a result Melton Medes has increased its holding. Melton Medes presently owns 2.5m ordinary (10.04 per cent).

Guinness Mahon the only part of GPG to be demerged

By Richard Waters

GPG (formerly Guinness Peat Group), the financial services group controlled by Equiticorp of New Zealand, last night announced a substantial reversal of its demerger plans.

The group is to be split into two parts, rather than the three originally intended. This will leave operations which together accounted for 80 per cent of 1987 profits within GPG.

As a result, only one Stock Exchange flotation is planned for next month – that of Guinness Mahon, the merchant bank. The other two parts were to be floated separately, but now will remain within GPG.

The three demerged parts were to be: Guinness Mahon; Fenchurch, an insurance broker; and GPG's US dollar-based offshore activities, including fund management in the US and a 21 per cent stake in Guinness Peat Aviation, a specialist aircraft financier.

Instead, Fenchurch will remain a subsidiary of GPG, which will maintain the overseas activities.

The change will leave the bulk of GPG's profit-earning operations in one entity. Guinness Mahon accounted for £6.7m of the group's £34.7m profit in 1987, while insurance broking returned £7.6m, US fund management £12.8m and aviation £7.8m.

Splitting up the group was originally intended to save up to £9m in central costs, and to allow each part greater management control. These benefits will still flow from the revised plan, said Mr Geoffrey Bell, executive deputy chairman.

"The more we looked at the thing, the more it became clear that it would be better to keep it together. The big thing was to get the bank out," said Mr Bell.

Equiticorp, which owns 61 per cent of GPG, bid 115p a share for the company last October. The shares have been trading recently at below 80p.

Analysts had estimated that the shares would be worth 95p-100p if the group were broken up into three parts. This should still be the case, since the same cost savings will be achieved, said Mr Bell.

UK COMPANY NEWS

CORE ACTIVITIES TO BENEFIT FROM £150M CAPITAL INVESTMENT PROGRAMME

Confident Ward White jumps 59% to £64m

BY DAVID WALLER

PROCLAIMING "another record year however you measure it", Ward White yesterday announced a 58.5 per cent rise in pre-tax profits to over £64m for the year to end-January and unveiled details of a £150m capital expenditure programme for the next three years.

Ward White, which over the past four years has been transformed into a retailer through a series of acquisitions, intends to spend the money on its three core businesses: Halfords, the car-parts and bicycle chain; Payless, the UK's third largest DIY retailer; and Whitlock, the US autoparts chain.

The investment, which compares to capital expenditure of about £27m in each of the last two years, will finance the opening of some 300 new stores and the creation of 10,000 jobs.

Excluding property profits of £1.1m, pre-tax profits rose by £23.8m to £64.4m during the period. Fully diluted earnings per share rose by 14 per cent to 26.9p; and after a proposed final dividend of 6.15p, the full year payout will amount to 8.75p, an increase of 17 per cent.

Much of the overall improvement in profits came from the three core divisions. Profits at Payless were £21.8m on turnover of £184.3m, against £13.7m on sales of £118m in the 10 months to January 31 1987. Helped by a surge in the sale of bicycles, Halfords generated £17.9m, against £12.2m in 1986, on turnover ahead from £144m to £170m.

Whitlock, acquired in December 1986 as part of the bitterly contested takeover of LCP Holdings, made its maiden contribution to Ward White's profits. In sterling terms, profits rose from £6m to £10.7m on sales of £92.8m; in local currency, they nearly doubled from $9.1m to $17.8m.

Mr Philip Birch, chairman, managing director and architect of the group's transformation in the last four years, said that the strong performance at Whitlock was attributable to the elimination of central overheads and the introduction of new merchandising strategies.

Wheels of fortune – Philip Birch (left), chairman and managing director of Ward White, with Ian Staples, managing director of Halfords, whose bicycles made a significant contribution to group profits.

Retail chain Owen Owen turned in a static performance with profits unchanged at £5m on turnover slightly ahead to £100m. Mr Birch acknowledged that he was disappointed with the business, and conceded that substantial property profits could be unlocked by development of the company as a retail business following the recent appointment of a new managing director.

Confirming the group's reorientation, Mr Birch again stated that he expected the disposal of the group's traditional footwear business to its management to be completed within 10 days for some £35.5m; this division contributed £2m to last year's profits. The sale of the 22 store Zodiac toys chain for £7.4m was completed yesterday morning.

Overall turnover rose from £559.6m to £755m, and operating margins improved from 8.1 to 9.4 per cent. Mr Birch said this was approximately twice the level achieved four years ago before the group was remoulded as a retailer.

Cash from disposals last year was £113.5m, supplemented by £69.1m from operations; this year, operations should generate cash of £85m and disposals £50m. The company expects to have no borrowings for some months.

See Lex

BAT sets conditions for higher Farmers offer

By Nikki Tait

BAT Industries, the British conglomerate which is waging a $4.5bn (£2.43bn) bid campaign for US insurance company Farmers Group, yesterday said it would be willing to raise its offer beyond the current $63 a share in a friendly negotiated transaction.

However, it added that it was seeking some modifications to the confidentiality agreement insisted on by Farmers before the American group makes certain information available to the British predator.

On Monday, Farmers indicated it was prepared to meet BAT, but asked the British group to make clear whether it would be prepared to raise its bid in this event. It also asked for clarification of any higher offer "without delay" – suggesting that if BAT wanted a meeting to detail its position it should say so by 9am yesterday (New York time). BAT's response came in a letter yesterday from chairman Mr Patrick Sheehy to Farmers chairman Mr Leo Denlea.

In addition, Monday's letter from Farmers to BAT said that it was prepared to disclose any confidential information which it had already provided to third parties, if BAT signed a confidentiality agreement. It is the details of this agreement which BAT is now querying.

The modifications to the agreement which BAT is seeking are designed to ensure two points, according to the British company. The first is that there should be no "unreasonable restrictions" on the freedom of Batus – the US subsidiary through which the bid is being made – to pursue an offer if the negotiations fail. The second is that a "fully level playing field" is established between Batus and any rival bidders. It declined to elaborate further.

Farmers has already disclosed that it is still in discussions with a third party about the financing of a leveraged buy-out, as an alternative to the BAT bid.

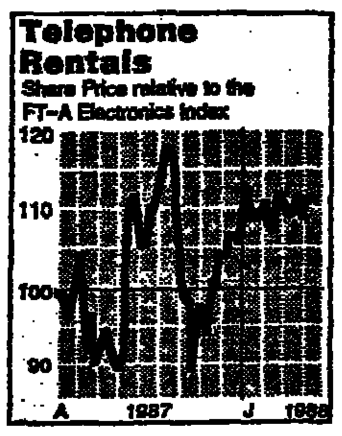
North American loss restricts growth at Telephone Rentals

BY CLAY HARRIS

NORTH AMERICAN losses of £911,000 restricted profits growth at Telephone Rentals, telecommunications equipment group, to 14 per cent in 1987. The pre-tax total of £19.6m (£17.2m) fell short of forecasts, and the shares closed 6p lower at 265p.

Mr Gus Moore, managing director, said the group's dash for growth in the Canadian rental market, where it ranks in the top four after only three years, had resulted in heavy initial development costs including high borrowing. He expected the Canadian operation to break even by 1989.

Telephone Rentals
Share Price relative to the FT-A Electronics Index



UK profits advanced by 22 per cent to £17.5m despite a small decline in sales, as opposed to rentals, and continued pressure on margins. New additional annual rentals rose to a record £5.7m on better overall terms than in 1986.

Large private network orders were secured from the Inland Revenue and British Steel. The latter is the first in the UK to use the digital access signalling connection which is essential to integrated networks which will carry all types of information: voice, data, text and image.

Plans to offer an integrated information system for City dealers were well advanced following the acquisition of V Band, which made Telephone Rentals the second largest supplier of dealer boards in the UK. The slowdown in the growth of the financial sector since October would affect this division's short-term trading position, the company said.

A Private Wire facility has been introduced to allow cellular telephone users to make direct connections to extensions on their company private branch exchanges.

Operations in France achieved record profits of £1m (£721,000). South Africa accounted for £1.37m (£1.21m), while the contribution from Ireland slipped to £587,000 (£636,000).

On turnover of £106.3m (£97.9m), trading profits advanced to £20.1m (£18m) and net interest payable fell to £592,000 (£825,000). Earnings per share rose by 11 per cent to 14.06p (12.64p). A final dividend of 5.5p (5p) will lift the total to 8.5p (7.75p).

● comment

If Telephone Rentals has disappointed throughout the 1980s by failing to deliver the full fruits offered by deregulation, the end of the waiting period is in sight. UK-based investors sometimes forget that the pace of telecommunications deregulation has been less radical in other countries, and that years of investment are necessary to win the handsome harvest which the group is now reaping in its home market. With 1992 in mind, continental expansion will be planned and co-ordinated in Paris rather than Milton Keynes. The V Band deal less than a fortnight before the crash now looks singularly ill-timed, but the company is adamant that there will be no earnings dilution and that the acquisition will pay off in the long run. Assuming sterling has peaked, pre-tax profits should easily reach £23m this year, putting the shares on a prospective multiple of 12.5. At this level, they are a firm hold. It would be an odd year if bid speculation did not stir again, with the 800-strong UK service staff one of the biggest attractions for a predator.

Alexander Proudfoot reaches £3m

By Philip Coggan

Alexander Proudfoot, formerly City and Foreign Holdings, yesterday announced a jump in pre-tax profits from £595,000 to £3.1m in the 53 weeks to December 31 1987.

The figures are fairly meaningless since they contain only one month's contribution from the eponymous US management consultancy which reversed into City and Foreign, a small investment holding company, late last year.

Proudfoot still contributed the bulk of group profits – £1.7m – during the one month it was included. Its full year profits in 1987 were $42m (£22.7m), compared with $26m in 1986.

City and Foreign was once an investment trust, but after defeating a takeover bid from Harvard Securities in 1986 it relinquished its trust status and, under the aegis of Lord Stevens, the United Newspapers and MIM chairman, moved into services.

Its first acquisition was a language school for businessmen and it subsequently added two debt-collecting agencies and a document microfilming business.

City's shares were suspended last August prior to the reverse takeover by Alexander Proudfoot which was financed by a £100m rights issue.

The non-Proudfoot businesses contributed £1.38m to the latest figures, compared with an adjusted £585,000 last year. Group earnings per share were 13p (6p).

As indicated at the time of the Proudfoot takeover, there is no final dividend; an interim of 2.94p per share was paid in October.

Sovereign Oil back in profit and cuts debt

BY STEVEN BUTLER

Sovereign Oil and Gas yesterday reported 1987 net profits of £2.1m following a loss of £13.8m in the previous year.

The company said it had now pulled through the shocks of the 1986 oil price collapse and was in a strong position to continue expanding its involvement in the North Sea.

The company's debt profile improved markedly with a year-end cash balance of £11.8m, compared with £7.2m in the previous year. Debt declined from £26.6m to £18.5m.

Since the close of the financial year, debt has fallen by a further £6.4m following Government repayment of advance petroleum revenue tax last month.

The average price realised per barrel of oil increased by eight per cent, but the gross profit per barrel increased from £2.96 to £4.56, reflecting reduced operating costs and lower depreciation charges owing to the reserve upgrades at the Forties and Claymore fields.

Sovereign reduced its exploration activity last year in view of the price environment. Three wells this year are planned for the southern gas basin, and £7m will be spent on exploration. A wildcat well is also planned near Usk in Gwent, which would be Sovereign's first onshore exploration effort as an operator.

Sovereign put a figure of 45m barrels of proven reserves on its Emerald field for the first time. It has a 30 per cent interest in the field and is the operator. Plans for development of the field are now virtually complete and awaiting final Government approval.

Sovereign decided not to pay a dividend this year owing to the uncertainty of oil prices. Earnings per share for 1987 came to 3.8p, compared with a loss per share of 27.4p in 1986.

● comment

Sovereign Oil & Gas is a different company from the one that appeared as though it might just collapse under the weight of debt two years ago. Debt is now down to a reasonable gearing level of 25 per cent and the company can continue rolling forward for many years to come on a comfortable cash flow from existing assets. Sovereign has also successfully reshaped its former high risk-profile based on looking for oil in deep frontier waters. It now has several highly-prospective blocks in the southern gas basin that are to be drilled this year. That is an impressive turnaround. Whether it is worth yesterday's closing price of 104p, up 1p on the day, depends largely on just where oil prices head in the coming years.

Americans step up Crescent Japan attack

By Nikki Tait

THE AGGRESSIVE American concert party which is seeking the unitisation of Crescent Japan, yesterday hit out at the recent performance of the £110m investment trust and questioned whether the board's adviser, Noble Grossart, was in a position to give independent advice.

In letter to shareholders, the Americans – who have built up a 20.9 per cent interest in the trust – also continues to attack the decision made in January to raise management fees paid to Edinburgh Fund Managers from 0.5 per cent to 0.75 per cent a year.

"The increased fee, combined with an unusually long five-year contract, make this management agreement one of the most restrictive in the investment sector and potentially one of the most expensive, should the directors choose to pay full compensation on early termination," says the concert party.

The renewed attack from the concert party comes in the wake of a staunch defence document from Crescent, which accused the Americans of "short term, ill-conceived" proposals and claimed "a consistent record of success." An egm to consider the unitisation request has been called for April 22.

The concert party claims that "although historically the company has performed broadly in line with the Tokyo Stock Exchange Index, its more recent performance has been poor. In the past five years the company has substantially under performed the TSE Index, particularly so in the recent months."

It argues that one reason for the "recent substantial underperformance" was a decision to go highly liquid after the October crash – thereby missing out on the continued rise in the Japanese market. Portfolio liquidity, it points out, rose to 64 per cent by end-1987, before falling slightly to 50 per cent by end-February.

The letter also raises questions over the role of Mr Angus Grossart, managing director of Scottish merchant bank, Noble Grossart and also chairman of Edinburgh Fund Managers. This, says the concert party, is "an obvious source of potential conflict that while it is in the interests of shareholders of Crescent Japan to maximise the value of their shareholdings, it is in the interests of the fund managers, EFM, to maximise remuneration from their management agreement."

Both this matter and the increased management fees are being raised by the concert party's advisers with the authorities. However, with no bid on the table, the matter does not appear to fall within the Takeover Panel's ambit, and the Stock Exchange said yesterday that there was nothing in its rules which would cause it concern over the conflict of interests.

Yesterday, the concert party – which centres around the New York Grace family and brokerage firm, Sterling Grace – suggested that unitisation could realise around 96 per cent of net asset value. This is based on the recent experience at Ailsa, another investment trust, and assumes that about half the maximum severance fee – after the increased charges – is paid to the fund's managers, and that liquidity has not changed significantly since end-February.

Last night, managers of Crescent were still waiting for copies of the document and were unwilling to comment in detail. However, Crescent has sent a further letter to shareholders, reiterating that "the board of Crescent Japan does not intend to mortgage the future of this highly successful investment trust.

See Lex

Torday & Carlisle advances 45%

Torday & Carlisle, the engineering group traded on the over the counter market made by Granville, raised 1987 pre-tax profits by 45 per cent to £1.12m.

Turnover rose 19 per cent to £17.71m. A final dividend of 3.5p makes a total for the year of 5.8p (4.8p). Earnings per share were 28p (20.6p).

Hillsdown in £2.9m purchase

By Nikki Tait

Hillsdown Holdings, food, furniture and property group, is continuing its European expansion through its Dutch subsidiary, Hillsdown International, with the purchase of poultry processor Hencu Beheers for Fl 10m (£2.9m) in cash.

Hencu is based at Cuijk in Holland, and processes approximately 250,000 birds a week. Fresh chicken accounts for about 85 per cent of production. Turnover in 1987 was Fl 56m, and pre-tax profits Fl 2.5m. Net assets totalled about Fl 9.38m.

In late-February, Hillsdown announced a series of acquisitions by the Dutch subsidiary, and said that its 1988 turnover was running at over £100m.

Triangle Trust back in profit

Triangle Trust, toy maker, has returned to profit for the first time in three years with £268,252 pre-tax for 1987, compared with a £445,274 loss previously. The company is returning to the dividend list with a 1p single final payment proposed.

Turnover of continuing activities rose from £7.01m to £9.29m. Sales of discontinued activities were £19.13m in 1986. The directors said that the net attributable loss of £481,148 (£357,014 loss) was as a result of exceptional and extraordinary charges mainly due to the closure costs of the cash and carry division and severance costs relating to retiring directors.

The comparative figures are restated.

Lex automotive side shows 27% growth

The new year had started well for both the automotive and electronics business of Lex Service and the outlook for the remainder of 1988 was encouraging, Mr Trevor Chinn, the chairman, told the annual meeting.

The company's retail motor businesses had continued toperform well and profits from the whole of the automotive sector were estimated to be 27 per cent higher than in the first quarter last year.

The vehicle contract hire businesses, jointly owned withLombard North Central, more than doubled profits in the first six months of their financial year.

Memec in dual purchase

BY FIONA THOMPSON

Memec (Memory and Electronic Components), Oxfordshire-based electronic components and microprocessor systems company, has acquired a controlling interest in two Hong Kong companies, Excel Associates and Maxisum.

Excel and Maxisum are specialist marketing, sales and distribution companies for advanced technology products and currently operate in Hong Kong, Singapore, Taiwan and South Korea. Both companies were founded in 1985 and are owned by Mauri and Barbara Morin.

Memec is paying HK$5.11m (£352,000) cash for a 51 per cent stake in both companies. It will acquire a further 24 per cent in March next year, at a price based on future profits, and has an option to acquire the remaining minority holdings within four years.

Framlington holding raised

Throgmorton Trust, the £320m investment trust which is making an unwanted bid for its managers' parent company, Framlington, yesterday announced it had acquired a further 200,000 ordinary shares.

Throgmorton and its subsidiaries now hold 2.91m ordinary, or 9.9 per cent. When added to its convertible preference shareholding, this gives Throgmorton a fully-diluted interest of 16 per cent.

Throgmorton posted its offer document last week, setting an April 28 closing date. Framlington, however, is still searching for a third party willing to make an offer for the business.

Yesterday, Framlington shares were trading at 193p. The Throgmorton offer is worth 192p nominal of convertible stock.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Atlantic Comps.	fin	5.5	–	3.5	7	4.62
Ball Gift Tech	fin	nil	–	0.2	nil	0.2
Blockleys	fin	8.8	June 8	2.71*	6.5	4.29*
British Fittings	fin	4.63†	May 24	3.75	6	5
Dowding & Mills	int	0.71†	May 20	0.64	-	1.76
GR (Holdings)	int	2	June 7	1.6	-	9.6
Hewden Stuart	fin	1.73	–	1.28	2.45	1.9
Savoy A	fin	5	-	4	5	4
Savoy B	fin	2.5	-	2	2.5	2
Telephone Rents	fin	5.5	July 5	5	8.5	7.75
Torday/Carlisle§§	fin	3.5	-	2.9	5.8	4.8
Triangle Trust	fin	1	June 6	nil	1	nil
Ward White	fin	6.15	July 8	5.25	8.75	7.5
Willaire Syst §	fin	0.25	July 11	0.1	0.25	0.1

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♦Third market.

Atlantic Computers grows to £38m

BY PHILIP COGGAN

Atlantic Computers, computer leasing group, increased preliminary pre-tax profits by 36.7 per cent to £38.2m in the year to December 31, 1987. The jump from the previous year's £27.9m, was accompanied by news of another step in the company's gradual diversification programme – the purchase of a chain of South Wales nursing homes for £4.1m.

The past year has seen an upheaval in the computer leasing sector with several major companies either merging or being acquired. Atlantic merged with fellow lessor Comcap in April 1987 and the previous figures have been restated on a merger accounting basis.

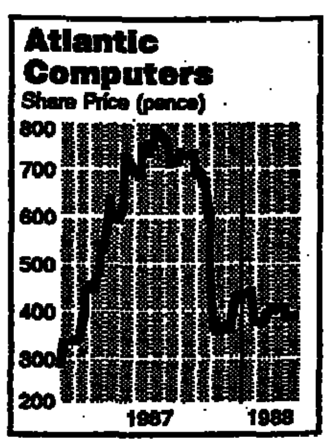
The computer services division continued to be the mainstay of the group. But margins were trimmed in a fiercely competitive market. The division's turnover grew 41.3 per cent but profits increased by just 25 per cent to £29m. The DEC systems division had another excellent year, however, increasing profits 69 per cent to £4.2m.

There were problems at Atlantic Network Systems, part of the communications and power division. A new product, ORATOR, failed to sell and there were significant non-recurring restructuring costs due to a shift in strategy. A £2.8m trading loss was recorded, but Atlantic hopes the division will move into profit this year.

The pre-tax profits include a £4.78m exceptional credit relating to the early realisation of profit from the property development interests of Summit. Atlantic acquired control of Summit when it merged with Comcap but reduced its stake to 40 per cent in a deal with GEC this January.

Earnings were 41.5p (31p). The proposed final dividend is 5.5p (3.5p), for a total of 7p (4.62p).

Atlantic's founder, Mr John Foulston, who combined the roles of chairman and chief executive, was killed in a motor racing accident last September. He has been replaced as chairman by Mr John Gillum, a director of merchant bank N M Rothschild and as chief executive by Mr John Tompkins, the former finance director.



● comment

The shake-ups within the computer leasing market have been so substantial that Atlantic, although generally perceived as the leader in the sector, has inevitably suffered. Confidence was also affected by the death of its founder and the new management will have to prove it is equal to Atlantic's impressive growth record. These figures were not quite good enough to do the trick and the shares fell 10p to 383p. Although profits forecasts had been edging down, analysts were not expecing half the growth to come from an exceptional credit. Add in lower margins in the core computer services division and that caused brokers to mark down their forecasts for this year from £50m to £45m. Atlantic is now the sole quoted representative of the computer leasing sector and there are therefore no easy comparisons; but its conservative accounting policy makes a prospective p/e of 8 look undemanding, particularly in the light of the more aggressive dividend policy.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- New Central Witwatersrand, Portland Holdings, Smiths Industries, Tribble Harris.
Finals- APV, American Plastic Technologies, Bestalls, Matthew Hall, Hogg Robinson & Gardner Mountain, Hornby, Juliana's Holdings, Newarthill, RMC, RTZ, Rockware, SPP, Tesco, Tudor, Wembley.

Interims-	
[illegible]	May 5
Equity & Law Intl Funds	Apr 25
New Cavendish Estates	May 18
Finals-	
CPU Computers	Apr 19
Chepstow Racecourse	Apr 18
Eagle Trust	Apr 28
Hestair	Apr 21
Nash Industries	Apr 22
Quarto	Apr 14
Radamec	Apr 21
Thames TV	May 24

Dowding & Mills climbs to £3.4m at midterm

AN OVERALL improvement in activity in the half year ended December 31 was reflected in a 32 per cent increase in pre-tax profits at Dowding & Mills, Birmingham-based electrical and mechanical engineer.

On turnover ahead by 12 per cent to £24.97m (£22.29m) taxable profits came out at £3.44m against £2.61m previously. Mr Peter Hollings, the chairman, said the increased activity, had continued into the second half and the directors expected the full year's results to be well ahead of the £5.58m achieved last time.

The interim dividend is increased from 0.64p to 0.71p, and earnings per 10p share rose to 2.5p (2.06p).

Bootham Engineers and Geha, Netherlands, both traded well during the half year and accounted for a major part of the profit increase. Le Marquand Motor Rewinds and its two subsidiaries, acquired in January for £729,000, was currently incurring small losses, the chairman said, but action was being taken to rationalise its operations.

The tax charge rose to £1.29m (£893,000) and minorities took £29,000 (£10,000).

Blockleys hits £3.45m

MR THOMAS Wright, chairman of Blockleys, Telford-based facing brick maker, yesterday unveiled a 53 per cent increase in pre-tax profits to a record £3.45m for 1987.

He said the group had accelerated the strong growth pattern achieved for the past five years and that current trading conditions coupled with a record order book for all products indicated further growth prospects for 1988.

Turnover for 1987 improved to £12.75m, a 40 per cent increase on the previous year's £9.12m. A large part of the advance was attributed to greatly increased sales of the Heritage range and strong demand for the group's wire-cut facing bricks and paviors.

Tax accounted for £1.24m (£817,000) leaving profits at £2.21m compared with £1.44m.

Earnings worked through 6.41p higher at 18.35p and a final dividend of 3.8p raises the total from an adjusted 4.286p to 6.5p.

Willaire rises sharply

Willaire Systems, USM-quoted industrial services, environmental and computer products company, substantially improved pre-tax profits from a restated £517,000 to £1.32m for the year to December 31 1987 on turnover up from £9.48m to £14.55m.

The directors said prospects for the current year were encouraging and in view of progress already made they had decided to move to the Official List.

The divisional structure had been realigned following acquisitions made during the year. Those had been integrated and the benefits of increased sales were showing through.

A final dividend of 0.25p (0.1p) has been recommended on the 2p ordinary shares.

Bibby to rethink US packaging disposal

By Clay Harris

J Bibby & Sons, agricultural and industrial conglomerate, is to consider retaining a US food packaging operation after abandoning an agreed $130m (£70m) disposal of the business in the face of opposition from the Federal Trade Commission.

Bibby said yesterday it would not try to renegotiate the proposed sale of its Princeton Packaging subsidiary's flexible packaging division to James River Corporation, US paper and packaging group. The decision was mutual.

The FTC blocked the deal in February because it would have given James River about 50 per cent of the US market in polythene bags used to package bread and frozen food.

Bibby said it would now consider whether to retain the operation, which accounts for about 75 per cent of Princeton's annual $186m turnover, or to try to find another buyer acceptable to the FTC. The review is likely to take a month.

The UK company, 86.5 per cent owned by Barlow Rand of South Africa, has been barred since October from discussing a possible disposal with any third party, but it has received several inquiries.

The smaller part of Princeton, which was not involved in the proposed disposal to James River, makes brown-paper and plastic carrier bags.

British Fittings jumps to £2.9m

British Fittings Group, the acquisitive Birmingham-based stockholder and distributor of heating equipment and supplier of high pressure pumps, lifted taxable profits from £2.26m to £2.91m in 1987 on turnover 29 per cent ahead at £35.68m.

The directors said all subsidiaries in the group's stockholding and distribution operations had seen a record year reflecting improved conditions in the construction industry.

The division had been strengthened by the acquisition of Gill & Russell in January and present trading indicated that companies in the division would exceed set targets.

After tax of £1.05m (£868,000), earnings per 20p share worked through at 19.39p (14.99p). A final dividend of 4.625p is recommended, making 6p (5p) for the year.

The directors also proposed a one-for-three scrip issue.

Investment helps Hewden Stuart rise 86% to £17m

BY VANESSA HOULDER

Hewden Stuart, Glasgow-based plant hire group, yesterday announced a 86 per cent increase in pre-tax profits for the year to January 1 1988, having reaped the benefits of past capital expenditure and a general upturn in economic activity.

Pre-tax profits of £17.41m (£9.38m) were scored on turnover up 33 per cent at £155.27m.

The results were well above analysts' forecasts and the shares rose by 3p to 139p.

Mr Matthew Goodwin, chairman, said that although the economic upturn had been particularly strong in the Midlands and the south, which accounted for half of turnover, improved conditions appeared to be spreading northwards.

Contrary to expectations and the normal seasonal pattern, second half profits were ahead of the £8.31m, posted at the interim stage, as a result of the mild winter and better-than-anticipated trading conditions.

Demand from customers, which cover almost all sectors of British industry, remained strong, said Mr Goodwin. The directors were confident that the current year would see a further increase in profits.

Capital spending on the modernisation and expansion of hire fleets totalled a record £28m, bringing capital expenditure during the past three years to about £100m. The company also made cash payments of more than £10m, after acquiring Seymour Plant and a minority interest in Gunn (Holdings).

Cash flow remained strong at an annual rate of nearly £40m. This allowed the company to keep bank borrowings at £20m, down to 30 per cent of shareholders' funds.

The company said that it intended to continue its policy of maximising cash flow, while providing shareholders with an increased income.

The merchandising division reported profits of £2.16m (£1.29m) on turnover of £60.81m (£47.37m) with the hire division showing profits of £15.25m (£8.09m) on turnover up from £69.82m to £94.46m. The hire division included a 12-month contribution from Seymour Plant, which generated about £1m after interest costs.

Earnings per share were 11.71p (6.61p) or 10.25p (5.91p) fully diluted. The proposed final dividend is 1.725p per share, making the total dividend for the year 2.450p (1.9p), an increase of about 29 per cent. The directors also propose a one-for-five scrip issue.

● comment

Hewden Stuart's spectacular performance underlines the transformation within the company wrought since the dark days at the turn of the decade. Then - a time when the industry was awash with surplus capacity - heavy plant equipment designed for major infrastructure projects accounted for four fifths of the group's business. Now, the same machinery takes a mere 10 per cent share with the rest of the business flowing from growth areas such as tool hire, site accommodation and air compressors. Overall, the progress made in the last year was a result of an improved client mix and a greater use of plant. The increased demand for plant, however, has not fuelled higher prices - thanks in large part to the highly-fragmented nature of the plant hire business. Despite being one of the largest operators in the UK, Hewden speaks for as little as 7 per cent of the market. But few of Hewden's competitors share its admirably low gearing and in due course this may lead to a shake out in the industry - and resulting opportunities for acquisitions. Meanwhile, however, Hewden has decided to play a waiting game, preferring to grow by internal expansion rather than fork out large sums on goodwill. Weather permitting, Hewden should produce at least £22m this year, which with a tax charge of 33 per cent, puts the shares on a prospective p/e of 11. Fair value.

Olives Paper back in the red

BY PATRICK DANIEL

Olives Paper Mill, the troubled paper manufacturer, slipped into the red again last year with a pre-tax loss of £1,102 – largely due to exceptional items – reversing the turnround the company achieved in 1986 with a pre-tax profit of £64,287.

Although Olives recorded a profit on its ordinary activities of £131,661, on turnover up 16 per cent to £9.62m, this was offset by compensations to senior executives who resigned following last year's bitter ownership row.

Shareholders in the Lancashire-based company ended the ownership battle in September when they opted for a £3.74m capital injection proposal by property developer, Mr Michael Kent.

Mr Kent, now the company's chairman, said yesterday that a reorganisation programme was underway. This included the formation of a property subsidiary, Olives Property Development.

Also part of the programme is a revamp of the board and the appointment of a new chief executive, Mr Richard Youngman, an experienced paper industry executive.

Mr Youngman replaces Mr Barry Common who resigned last month, together with finance director Kenneth Shore, following criticisms of their management style.

The company is also expected to today announce the resignations of the remaining two directors on the board and the appointments in their place of Mr Gerald Jiggins, a longtime associate of Mr Kent, and Mr Ian Dighe of Manchester Exchange Trust.

Compensation payments to the former directors are again expected to pull down profits this year.

Mr Kent, who also owns Kent City Developments, indicated that a reversal of Kent City into Olives Property was likely, subject to the normal approvals.

Olives Property has also sought planning approval to develop residential properties on a part of the 70-acre mill site.

Floyd Oil profit

For the 18 months to end-December Floyd Oil Participations, USM-quoted oil and gas explorer and producer, returned a gross profit of £875,000. The figure compares with a loss of £843,000 for the 12 months to June 30 1986.

An extraordinary provision of £6.97m (credit £186,000) left the company £7.68m in the red for the 18 months (£2.38m for period).

Loss per 10p share amounted to 1.97p (11.09p).

ISSUE NEWS BY FIONA THOMPSON

Car auction group set for USM

Central Motor Auctions, the UK's second largest group of motor auctioneers after British Car Auction, is to join the Unlisted Securities Market.

The Leeds office of Rensburg is placing 3.32m shares, representing 33.5 per cent of the enlarged equity, at 80p per share, valuing CMA at £8m. The 2.5m new shares placed will raise £1.83m. Existing shareholders are selling 750,000 shares.

The business was founded in 1921 and taken over by Mr Eric Myers, the present chairman, in 1946. It operates nine auction centres throughout the country, and for the year to end-October offered for sale in excess of 150,000 cars, vans, heavy commercial vehicles and plant. Of these, 68,000 were sold, producing income of £5m, equivalent to £73 from each vehicle. Pre-tax profits amounted to £743,000, putting the shares on a historic p/e of 12.68p.

CMA deals primarily with fleet disposals. "The bulk of our business, 50 per cent plus, is the company car," said Mr Chris Wright, managing director. The general public accounts for about 10 per cent of business, the balance is made up of motor traders and franchise garages.

The public's perception of motor auctions has changed dramatically since the early 1970s, when they were viewed as "back-street operators in dilapidated premises with a load of old bangers to sell," said Mr Wright. Heated showrooms with cafeterias and seating, and valeted and polished cars had helped change the image.

CMA's net assets include the freeholds of the nine auction sites totalling about 40 acres. After the placing the company will have asset backing equivalent to 75p per share.

The money is being raised to purchase additional sites and businesses, said Mr Wright. "We are particularly short of one site just north of London."

The directors are forecasting dividends totalling 2.5p net per ordinary share for the year ending October 31, 1988.

Dealings will start on Monday, April 18.

Chris Wright – money being raised to purchase additional sites and businesses.

Placing values Morris Ashby at £7.4m

Morris Ashby, producer of non-ferrous high pressure and gravity diecastings, is joining the Unlisted Securities Market via a placing organised by Allied Provincial Corporate Services.

Some 3.42m shares, 41.9 per cent of the enlarged equity, are being placed at 90p each, giving the company a market capitalisation of £7.35m.

The flotation is supported by a profits forecast for the year to March 31 1988 of not less than £925,000, giving a prospective price/earnings multiple of 9.08, after an anticipated tax charge of 30 per cent.

The group has two manufacturing subsidiaries - Morris Ashby at Witham in Essex and Kaye at Presteigne in Powys. More than three quarters of the group's turnover comes from aluminium high pressure die-casting and about half of output is for customers in the vehicle industry. Other customers are in the telecommunications, electrical appliances, furniture, sports goods and office equipment markets.

The casting business of Morris Ashby dates from the turn of the century. It was sold in 1978 to Royal Dutch Shell, and there was a management buy-out in 1982. In April 1984 Kaye was acquired.

Of the 3.42m shares being placed, 1.66m are new shares which will raise £1.29m for the company, to be used to expand the Witham operation and purchase new plant and machinery.

Thirty-five members of the management team are selling 1.76m shares to raise £1.58m. Many raised money through bank loans to buy shares at the time of the buy-out, said Mr Norman Gardner, chairman and managing director.

Dealings will start on Monday, April 18.

Freeman coming to unlisted market

Freeman Group, which provides specialist distribution and contracting services for the building industry, is coming to the Unlisted Securities Market through a £3.8m placing.

Laurence Prust is placing 1.8m shares, some 31.5 per cent of the enlarged share capital, at 210p per share, valuing the company at £12m.

One third of the shares being placed are being sold by existing shareholders, and the balance will raise £2.3m for the company.

The growth of the group over the past three years has led to an increase in bank borrowings. The £2.3m will eliminate present borrowings, except for monthly peaks, thus putting it in a strong financial position for continued organic growth and enable it to make acquisitions for cash.

Pre-tax profits rose from £362,000 in the year to December 1983 to £1.33m last year, putting the shares on a historic p/e of 11.5. The directors forecast a gross dividend yield of 4.3 per cent.

The group has three wholly-owned subsidiaries. Warren Insulation Distributors is the UK's third largest distributor of structural insulation materials and contributed 74 per cent of group operating profits last year.

Freeman Kershaw (Mechanical Services) designs and installs heating, ventilating and air conditioning systems. It contributed 19 per cent of profits.

Freeman Insulation (7 per cent of profits) is involved in upgrading the insulation standards of existing buildings.

COMMODITIES AND AGRICULTURE

US and Soviet Union set for more grain pact talks

BY NANCY DUNNE IN WASHINGTON

THE US and the Soviet Union are reported to have agreed to hold a second round of talks on a new long-term grain agreement next month in London.

The talks opened in March in Washington with the American side seeking higher minimum levels than the 9m tonne Soviet purchase commitment under the current pact. The Soviets are hoping for more flexibility and for price guarantees.

Both sides would like to have an agreement to sign when President Reagan goes to Moscow at the end of May. But Mr Alan Holmer, the deputy trade representative, who is leading the talks for Washington, has been so busy with Trade Bill negotiations and work on the US-Canada free trade agreement that he has been unable get away for the next round any earlier.

The two superpowers are meeting in an atmosphere of increasing warmth. Since the talks began the US has made 2m tonnes of subsidised wheat available to Moscow under the Export Enhancement Program, and the Soviets have been eager customers.

In the fifth and final year of the current LTA, the Soviets have purchased more than 12.4m tonnes of US grain, including 8.3m tonnes of wheat and 4.1m tonnes of maize. In addition, sales of soyabeans now total 318,400 tonnes and sales of soyabean meal total 1.3m tonnes.

Purchases have been brisk because the 1987 Soviet crop was of poor quality, but according to the US Agriculture Department prospects for 1988 Soviet winter grain remain good.

Mr Christian Foster, a USDA economist, said Soviet moisture supplies have been adequate and the Soviets have been actively improving production on increasing acreages with more efficient use of fertiliser, herbicides and pesticides.

However, according to a recent article in USDA's Farmline, the Soviets have a serious shortage of protein for livestock feed, which is why they bought American soyabean meal for the first time under the current LTA.

Mr Edward Cook, another USDA economist, said the Soviets are now taking a less radical approach to agriculture reform than was anticipated a year ago. There is no dramatic shift towards a market economic and promises of increased local autonomy for farm managers have been slow in coming.

He said the Soviets are still taking money from profitable farmers and giving it to unprofitable farms to even out differences in farm wages. Although large disparities in incomes are avoided, there is still little incentive for workers to make their farms more profitable.

Producers raise zinc prices to $1,000

By David Blackwell

METALLGESELLSCHAFT, Europe's leading zinc producer, and Preussag, also of West Germany, yesterday raised their European producer prices to $1,000 a tonne from $970 a tonne with immediate effect.

The price has risen three times already this year – by $30 a tonne in mid-January and by $30 and $30 at the beginning and end of last month. It is at the highest level since mid-1984, when China disturbed the market by buying large quantities of the metal in the West.

Metallgesellschaft said yesterday that the market was so strong it believed the price increase could be sustained.

On the London Metal Exchange yesterday the price of three-month metal rose by £12.25 to £564.50 a tonne. News of the producer price rises failed to extend gains made in morning trading, as LME levels already worked out at well above $1,000 a tonne, traders said.

Strong demand for galvanised steel from a booming motor industry has fuelled recent rises on the LME, analysts said. Because of the unexpected level of offtakes, supply disruption from mines and technical problems at smelters there has been a considerable impact on the marginal LME market.

OFT clears exchange rules

BY DAVID BLACKWELL

THE OFFICE of Fair Trading has raised no objections to the rules of the London Futures and Options Exchange (Fox) and the Baltic Futures Exchange, but it has warned that restrictions on the number of floor members allowed to trade could give rise to competition difficulties in the future.

The two exchanges have applied to become Recognised Investment Exchanges(RIEs) under the Financial Services Act.

The rules of the two exchanges contain nothing that could significantly affect competition, says Sir Gordon Borrie, Director General of Fair Trading.

But he draws attention in his reports to the Department of Trade and Industry to the fact that London Fox limits floor members to 52, 35 and 30 respectively for the cocoa, coffee and sugar markets.

Although these restrictions do not at present appear to represent a barrier to entry as demand for places does not exceed supply, they could "have an adverse effect on competition in the future," he says.

But London Fox is understood to be willing to consider amendments to the rules so that "if necessary higher numbers of members could be admitted to each market."

The BFE also restricts the number of floor members. "This does not at present represent a barrier to entry because there are, I understand, a number of existing members who are willing to sell their seats, and there could be also be scope for expanding the BFE's facilities should this prove necessary," says the report.

Sir Gordon also expresses concern at the BFE's lack of any provision for locals (individuals trading on their own account.)

"Although in principle this is a barrier to entry, in the absence of an demonstrable demand for such access I do not now conclude that this is likely to have any adverse effect on competition."

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,280-2,300 (same).

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse, 5.40-5.60 (5.55-5.70).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots 8.40-8.80 (8.50-8.95), sticks 8.40-8.80 (8.50-8.95).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 6.85-7.10 (same).

MERCURY: European free market, min 99.99 per cent, $ per 76 lb flask, in warehouse, 285-295 (288-295).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.75-3.85 (3.75-3.90).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 10.30-10.60 (10.40-10.70).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit (10 kgs) WO, cif, 55-60 (same).

VANADIUM: European free market, min 98 per cent, VO, cif, 3.10-3.20 (same).

Colombia sees big coffee crop rise

BY SARITA KENDALL IN BOGOTA

THE COLOMBIAN Coffee Federation's 1987-88 production forecast of 13.4m bags has caused some confusion among coffee growers and exporters. The figure is much higher than previous estimates, and represents an increase of 3.2m bags over the 1986-1987 harvest.

"It's a surprise," said Mr Gilberto Arango of the Association of Private Exporters. "There's some scepticism, especially in the western growing areas of Colombia. But the Coffee Federation's data supports the figure."

In the first four months of the coffee year 5.8m bags were harvested. However, growers in the departments of Quindio, Caldas and Risaralda – the heart of the coffee growing region – predicted a "stress reaction", saying the trees were exhausted. A new disease, which some experts link to coffee rust and others to the lack of rainfall, has attacked trees in the area. The coffee fails to ripen properly and dries out on the branches.

The increasing cost of fighting rust and renewing plantations is proving especially onerous for small growers. The new rust-resistant Colombia variety produces a slightly smaller bean and the conservative small farmer is apparently wary of changing over. Some are also worried about the long-term quality of the new tree.

Producers had been hoping for a price increase of more than 10 per cent, in line with the inflation rate for the first quarter of 1988. But the spectacular growth in output has stretched the coffee fund's capacity to purchase the crop, and the internal price rise is being kept just under 5 per cent. Growers say this will affect replanting plans and future harvests.

After falling back to 6.2m bags last October, Colombia's coffee stock are now expected to be about 9.5m bags at the end of the coffee year. Exports, to other International Coffee Organisation members and to non-members, are unlikely to pass 9.4m bags, compared with 12m bags in 1986-87. Coffee income, which normally contributes about 60 per cent of export earnings, was down to $1.5bn in 1987, and this year's figure is expected to be almost identical.

Despite the fall in export volume since the new coffee pact came into effect, Colombia continues to be a firm supporter of the international agreement.

Mr Jorge Cardenas, manager of the Coffee Federation, said last week that talks should begin shortly on the extension of the pact for another two years beyond 1989. He welcomed the stabilisation of coffee prices since last October, and said the world market would be in disarray but for the agreement.

Dauster rallies Brazilian fortunes

BY JOHN BARHAM IN SAO PAULO

MR JORIO DAUSTER is that rarest of commodities: the right man in the right place at the right time. As president of the Brazilian Coffee Institute (IBC) he is guiding the country's coffee industry through profound and unsettling changes with the firm hand of a professional conciliator.

A 50-year-old career diplomat, Mr Dauster reached the top of the Brazilian diplomatic corps by devoting nearly all his professional life to the coffee trade. For eight years he looked after Brazil's coffee and sugar interests in London, until he was recalled 14 months ago to overhaul the IBC.

So far he has put hardly a foot wrong and the industry is delighted with his performance. Said Michael Timm, a Brazilian coffee trader: "People always liked him and everyone always wanted him to be head of the IBC."

It is not difficult to understand why he is so popular. The unstuffy and unpretentious Mr Dauster has a ready wit and an almost legendary grasp of the coffee industry. And, perhaps more importantly, he has a natural gift for negotiation and an unblemished reputation for fairness.

The IBC president is credited with averting catastrophe in the Brazilian coffee trade by acting decisively to shore up sliding prices. He has cleaned up and slimmed down an archaic and corrupt IBC, the government department which regulates the coffee industry. He has restored Brazil's credibility in the world coffee trade. He has begun democratising the institute's decision-making processes.

As he says himself, he is presiding over the end of an "imperial, absolute IBC." He says he had no choice, since "the Government no longer has the resources to oversee, control, supervise and regulate every aspect of the coffee industry." The Federal Government is close to insolvency.

His solution is to involve the private sector in policy-making and in managing the IBC's research and technical assistance agency.

He has made the coffee industry financially self-sufficient. It no longer relies on Treasury funds or subsidies. Now, the IBC uses the 36 per cent tax it levies on coffee exports to finance buffer stock acquisitions and to pay for agricultural research. In the bad old days the tax would flow into the Treasury, never to find its way back to the decapitalised and indebted trade.

The industry has begun to take responsibility for some of the services the IBC was meant to provide, but never did.

For instance, exporters now have to pay for private external auditors to check on their stocks. The exporters are angry at the extra cost, however, and some companies have fired the auditors and tried to cheat the IBC by over-estimating their stocks.

Mr Dauster's most formidable challenge still lies ahead. While the private sector is increasing its pressure for deregulation of the industry and the abolition of the IBC, the institute's president, for all his belief in the virtues of privatisation, is staunchly defending a residual role for government in the industry.

Later this month, government and private sector working parties will present their reports on the industry's future.

Mr Walter Pierrot, director superintendent of Cafe Soleto, a leading Brazilian coffee roaster, makes the industry's case for abolition of the IBC. "The private sector has already begun absorbing many of the IBC's functions," he says. "The industry wants a private board to take over the IBC's most important functions – distribution of export quotas and management of buffer stocks."

At the moment, the IBC distributes quotas mainly on the basis of each company's past exports performance and the size of its outstanding stocks. Only 10 per cent of quotas are auctioned on the open market. Mr Dauster and most of the industry want all of the quotas to be auctioned. Mr Pierrot and many others say that the auctions make the IBC all but superfluous.

Jorio Dauster . . . has hardly put a foot wrong

Mr Dauster maintains, however, that the coffee industry is too important to be left entirely to the private sector. Brazil still provides one-third of the world's coffee, and coffee provides the country with $2.7bn in export revenues every year, or about 10 per cent of the total.

Only the Government, Mr Dauster insists, can stabilise the extremely volatile coffee market. "I know of no other product where the world's principal supplier is subject to fluctuations in output that vary by 50 per cent from year to year." Last year Brazil harvested 35m bags of coffee, up from 14m in the previous year. In 1985 it harvested 33m bags.

These large variations in output have profound effects on the world market as well as on the domestic market. "We need a system to absorb and equalise prices," Mr Dauster says. And this can only be done by the Government.

Stocks have declined as national output succumbed to severe periods of drought and frost. Two decades ago the institute's stocks stood at 66m bags. But by 1986, they had dwindled to an insignificant 2.5m bags, because of a combination of bad luck and bad management.

At that point, Mr Dauster says "Brazil ran the risk of being wiped off the map for two years." As world prices rose and then collapsed Brazil almost lost its right to the biggest slice of the world market to Colombia.

One of the first things Mr Dauster did when he took over the IBC was to begin replenishing its buffer stocks. In the year to March he bought 10m bags of coffee, giving producers a real 19 per cent price increase. He plans to build up a strategic reserve of between 18m and 20m bags.

Brazil managed to hold on to its export market thanks largely to Mr Dauster's skilful negotiations at the International Coffee Organisation (ICO). The ICO regulates the international coffee trade by dividing most of the world's consumer markets among producing countries by setting export quotas. ICO negotiations have become summit conferences where quotas and prices are established in the heat of intense political discussion.

The very existence of a complex international coffee agreement makes a policy-making role for government essential. And the crop's economic importance to Brazil means that the IBC will probably retain the residual role Mr Dauster is seeking.

His undoubted powers of persuasion and his outstanding record at the institute mean that in the end he will probably get his way.

As Mr Pierrot has had to admit, the result of this month's discussions on the IBC's future is almost a foregone conclusion. Mr Dauster will hammer out a compromise solution that will satisfy almost everybody – probably the greatest achievement a professional diplomat could hope for.

British Steel may import Chinese coal

BY MAURICE SAMUELSON

BRITISH STEEL may order its first trial cargo of Chinese coking coal later this year if samples currently undergoing laboratory tests prove satisfactory, says Mr Colin Gubbins, the corporation's manager of coal, coke and fuel supplies.

Mr Gubbins was speaking after a visit to China where he said he was "quite encouraged" by what he had seen of the country's programme to expand its coal exporting potential.

Chinese ports had the capacity to load significant quantities, but a lot more work needed to be done before it could compete with the other leading exporters, including dredging of harbours to enable handling of long-distance 120,000 tonne vessels.

In a lecture to the third Pacific Rim coal conference at Peking, Mr Gubbins said that if China could become a cheap, reliable and consistent exporter it had a good chance of becoming a major supplier to the European Community steel manufacturers, whose imports of metallurgical coal were expected to increase from 28m tonnes a year to 38m tonnes over the next 10 years.

Although China has sold quantities of steam coal to European power stations and factories, its exports of steel coking coal have so far been limited to Japan and Brazil.

If small quantities now being assessed by British Steel experts prove satisfactory, "we might consider ordering a trial cargo late this year or next year", said Mr Gubbins.

European steel makers would welcome Chinese coal not merely because of price but as part of their policy of diversifying their sources of supply as widely as possible. For this reason, they have recently been increasing purchases from Western Canada and Australia at the expense of the US.

"We welcome new sources of coal supply and our restricted knowledge of China would suggest that you have coals which we can use", Mr Gubbins said.

Imports were also favoured by the current depressed freight rates and by the shift in steel making from the coal-rich North European countries to coastal areas of the Mediterranean which lack local coal resources.

In the last 10 years, the proportion of imported coking coal used by British Steel has soared from a mere 12 per cent to 69 per cent.

WORLD COMMODITIES PRICES

LONDON MARKETS

ALUMINIUM prices fluctuated on the LME yesterday as the market attempted to stabilise after recent sharp losses. The price for 99.7 per cent pure cashmetal fell another $55 a tonne to $2,645, while three-month metal added $22.50 to $2,290 a tonne. The movement narrowed the premium for cash metal to $355 a tonne from $432.50 on Monday. Traders said they would not be surprised to see a further fall in three-month metal to around $2,150 before the market's sound fundamentals reasserted themselves. Nickel prices recovered some of Monday's sharp losses, with three-month metal closing at the day's high of $13,475 a tonne, equivalent to $6.11 a lb. The market now appears to be attempting consolidation above $6 a lb, although renewed strength would probably induce further profittaking activity over the short-term, traders said. Meanwhile the Biffex dry freight cargo futures contract again fell sharply.

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$14.90-5.00w	+0.20
Brent Blend	$16.63-6.68w	+0.28
W.T.I.(1 pm est)	$18.00-8.05w	+0.25
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$177-180	+1
Gas Oil (Soviet)	$149-150	+3
Heavy Fuel Oil	$86-88	+1
Naphtha	$153-156	+2
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$450.75	+1.50
Silver (per troy oz)♣	644c	+2
Platinum (per troy oz)	$536.00	+4.25
Palladium (per troy oz)	$122.25	+1.00
Aluminium (free market)	$2605	-127.5
Copper (US Producer)	109½-113c	-3.875
Lead (US Producer)	35.5c	
Nickel (free market)	690c	+40
Tin (European free market)	£3710	+20
Tin (Kuala Lumpur market)	17.40r	+0.03
Tin (New York)	319.75c	-0.25
Zinc (Euro. Prod. Price)	$976	
Zinc (US Prime Western)	51⅛c	
Cattle (live weight)†	111.04p	+0.32*
Sheep (dead weight)†	210.83p	-5.51*
Pigs (live weight)†	67.53p	-0.32*
London daily sugar (raw)	$223.40s	+2.40
London daily sugar (white)	$238.00s	-1.00
Tate and Lyle export price	£227.50	
Barley (English feed)	£107.50	-1.00
Maize (US No. 3 yellow)	£133.00	
Wheat (US Dark Northern)	£94.50s	+1.75
Rubber (spot)♥	68.00p	+0.50
Rubber (May) ♥	70.00p	+0.50
Rubber (June) ♥	70.25p	+0.50
Rubber (KL RSS No 1 Mar)	305.5mw	+1.5
Coconut oil (Philippines)§	$510s	+10
Palm Oil (Malaysian)§	$390w	
Copra (Philippines)§	$340	
Soyabeans (US)	£182w	+2.5
Cotton "A" Index	66.20c	+0.40
Woolsops (64s Super)	600p	

COCOA £/tonne	Close	Previous	High/Low
May	884	884	887 870
Jly	900	904	905 889
Sep	918	922	922 906
Dec	942	947	945 929
Mar	967	972	970 954
May	988	992	995 973
Jul	1002	1010	1000 992

Turnover: 3674 (1717) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for April 12 : 1164.35 (1174.16) .10 day average for April 13 : 1182.31 (1186.89).

COFFEE £/tonne	Close	Previous	High/Low
May	1116	1120	1125 1116
Jly	1137	1140	1147 1138
Sep	1158	1160	1168 1156
Nov	1180	1182	1183 1179
Jan	1202	1205	1207 1200
Mar	1222	1225	1227
May	1240	1243	

Turnover: 2402 (1484) lots of 5 tonnes
ICO indicator prices (US cents per pound) for April 11: Comp. daily 1979 116.50 (116.39); 15 day average 116.61 (116.61).

SUGAR $ per tonne			
Raw	Close	Previous	High/Low
May	195.60	193.00	195.80 193.00
Aug	196.20	193.00	196.40 193.00
Oct	196.40	193.40	196.40 193.60
Dec	195.00	192.20	195.00 193.40
Mar	196.00	194.00	195.80 194.00
May	197.00	194.80	
White	Close	Previous	High/Low
May	241.00	237.00	241.00 236.50
Aug	238.50	236.50	238.50 234.50
Oct	238.00	236.00	237.60 237.00
Dec	237.50	236.50	
Mar	239.00	237.00	
May	239.80		238.50 237.00

Turnover: Raw 5990 (2983)lots of 50 tonnes; White 3116 (2327).
Paris- White (FFr per tonne): May 1370, Aug 1362, Oct 1362, Dec 1365, Mar 1372, May 1380

GAS OIL $/tonne	Close	Previous	High/Low
May	144.25	140.75	144.75 142.75
Jun	142.00	139.25	142.25 140.75
Jul	141.50	138.75	141.75 141.00
Aug	141.50		142.00 141.00
Sep	144.00		144.50 143.00

Turnover: 8108 (5332) lots of 100 tonnes

GRAINS £/tonne			
Wheat	Close	Previous	High/Low
May	102.90	102.80	103.00 102.90
Jly	105.20	105.10	105.30 105.05
Sep	101.40	101.10	101.40
Nov	102.95	102.80	103.00 102.95
Jan	105.45	105.15	105.45
Mar	107.45	107.25	107.45
May	109.50	109.40	109.50
Barley	Close	Previous	High/Low

Turnover: Wheat 183 (122) , Barley 12 (4) lots of 100 tonnes.

LONDON METAL EXCHANGE [illegible]

POTATOES £/tonne [illegible]

SOYABEAN MEAL £/tonne [illegible]

FREIGHT FUTURES $10/index point [illegible]

LONDON METAL EXCHANGE TRADED OPTIONS [illegible]

LONDON BULLION MARKET [illegible]

COTTON

Liverpool–Spot and shipment sales for the week ending April 8 amounted to 612 tonnes against 446 tonnes in the previous week. Trading was still relatively low with dealings in West African, Pakistan, Chinese and American growths.

JUTE [illegible]

US MARKETS

PRECIOUS METALS traded quietly for most of the day before commission house and local selling eased prices late in the session in the face of trade-down trade support, reports Drexel Burnham Lambert. Copper broke the 100 level basis May as commission house and fund selling touched-off stops to drive prices sharply lower following quiet early trading. Crude oil futures derived strength from follow-through buying with trade buying and mixed short-covering. The products also derived support from the strength in crude oil and as traders bought products against crude oil. Cocoa prices eroded throughout the day, coffee rallied on short-covering and price-fix buying while sugar firmed on mixed short-covering and commission house buying. The grains were quiet, commercial buying was noted, especially in the soyamel, while commission house selling was apparent across the board. Live cattle futures closed lower in line with cash and as traders liquidated the nearby April contract. Hogs fell in sympathy with cattle, while bellies moved to limit-down reflecting the build-up of frozen storage stocks.

New York

Chicago

[US Markets price tables (crude oil, heating oil, cocoa, coffee, sugar, cotton, orange juice, gold, platinum, silver, copper, indices, soyabeans, soyabean oil, soyabean meal, maize, wheat, live cattle, live hogs, pork bellies): illegible]

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Awaiting G7 and trade news

THE DOLLAR closed little changed in Europe, as the market looked nervously towards today's meeting of ministers from the Group of Seven, in Washington, and tomorrow's publication of the February US trade figures.

Dealers squared positions in expectation that G7 will merely reaffirm the commitment of the major industrial nations to stable exchange rates, and on forecasts of a reduction in the US trade deficit.

The market will be very surprised if there is a fresh initiative on currencies from the G7, but traders fear the trade news could disappoint, and send the dollar lower.

An improvement from the January trade deficit of $12.44bn is widely expected, but forecasts range from about $8bn to $12bn and anything above $11bn could be regarded as bad news.

The *dollar rose to DM1.6875* from DM1.6865; to SFr1.3980 from SFr1.3960; and to FFr5.72 from FFr5.7150, but was unchanged at Y126.55.

On Bank of England figures the dollar's index was unchanged at 93.4.

STERLING - Trading range against the dollar in 1987/88 is 1.8880 to 1.4710. March average 1.8332. Exchange rate index fell 0.1 *to* 77.7, compared with 73.4 six months ago.

Sterling closed slightly weaker overall, as dealers took profits, but recoved from the day's lows.

Profit taking pushed the pound down to a low of DM3.1150 in the morning, in spite of firmer North Sea oil prices.

Dealers said sterling's decline was a late reaction to last Friday's announcement of a cut in UK bank base rates.

The general outlook for the pound is uncertain, but the market is not prepared to believe upward pressure is over, although this may depend on the performance of the dollar later this week.

If the news from G7 and on the US trade figures disappoint, the pound may return to the centre of the stage and regain support.

Sterling recovered from its low to close at DM3.1225, compared with DM3.1275 on Monday. The pound fell 30 points to $1.8510, and also declined to Y234.25 from Y234.50, and to FFr10.5875 from FFr10.5950, but closed unchanged at SFr2.5875.

D-MARK - Trading range against the dollar in 1987/88 is 1.9805 to 1.5740. March average *1.6766*. Exchange rate index 148.7 against 146.5 six months ago.

The D-Mark showed little change against the dollar in quiet Frankfurt trading. There were no new factors, with dealers continuing to discuss the implications of this week's G7 meeting, and the US trade figures.

It was suggested the dollar remains in a general range of DM1.65 to DM1.70. It closed at DM1.6850, compared with DM1.6865 on Monday.

News of a widening in France's February trade deficit to a seasonally adjusted FFr5.2bn, from FFr600m in January, depressed the French franc against the D-Mark. The franc closed unchanged at DM29.4950 per 100 D-Marks after reports of intervention by the Bank of France. Dealers reported heavy selling of the French currency on the trade news.

JAPANESE YEN - Trading range against the dollar in 1987/88 is 159.45 to 121.35. March average 127.08. Exchange rate index 243.1 against 221.7 six months ago.

The yen lost ground to the dollar in Tokyo, in nervous trading. The dollar closed at Y126.50, compared with Y125.70 on Monday. Shortly after the opening the US currency rose to a peak of 126.70, but met strong selling interest at this level. Dealers also reported technical buying at Y126.40.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Apr.12	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.4340	+2.30	+1.01	±1.5344
Danish Krone	7.85212	7.95514	+1.31	+0.02	±1.5404
German D-Mark	2.05853	2.07510	+0.80	-0.49	±1.0981
French Franc	6.90403	7.03751	+1.93	+0.64	±1.3674
Dutch Guilder	2.31943	2.32859	+0.39	-0.90	±1.5012
Irish Punt	0.768411	0.775993	+0.99	-0.30	±1.6684
Italian Lira	1483.58	1538.74	+3.72	+2.98	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Apr.12	Latest	Previous Close
£ Spot	1.8495-1.8505	1.8590-1.8600
1 month	0.17-0.15pm	0.17-0.15pm
3 months	0.55-0.51pm	0.54-0.51pm
12 months	2.05-1.95pm	2.08-2.00pm

Forward premiums and discounts apply to the US dollar

POUND SPOT- FORWARD AGAINST THE POUND

April 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8470-1.8575	1.8505-1.8515	0.19-0.16cpm	1.13	0.56-0.50pm	1.13
Canada	2.2865-2.2955	2.2890-2.2900	0.04-0.14cdis	-0.47	0.26-0.38dis	-0.56
Netherlands	3.49½-3.51	3.50-3.51	1⅛-⅞cpm	4.07	3⅞-3⅛pm	4.07
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STERLING INDEX

	Apr.12	Previous
[illegible]	[illegible]	[illegible]

CURRENCY RATES

Apr.12	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

April 12	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY MOVEMENTS

Apr.12	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

EURO-CURRENCY INTEREST RATES

April 12	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER CURRENCIES

April 12	£	$
[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

April 12	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MONEY MARKETS

Firmer trend

THERE WAS a firmer trend to interest rates in London yesterday, as sterling suffered from a further bout of profit taking.

Three-month interbank rose to 8⅝-8½ p.c. from 8¼-8⅛ p.c., tending to underline the present bank base rate level.

Last Friday there were doubts that the ½ point cut in bank base rates would be enough to prevent upward pressure building on the pound, but now the market waits to see the outcome of this week's Group of Seven meeting in Washington, and publication of the US trade figures, before deciding the future direction of the foreign exchanges.

UK clearing bank base lending rate 8 per cent from April 11

The Bank of England initially forecast a money market shortage of £700m, but revised this to £750m at noon. Total help of £678m was provided.

Before lunch the Bank of England bought £219m bills outright, by way of £181m bank bills in band 1 at 7⅞ p.c., and £38m bank bills in band 2 at 7⅞ p.c.

In the afternoon the authorities purchased another £459m bills, through £313m bank bills in band 1 at 7⅞ p.c. and £146m bank bills in band 2 at 7⅞ p.c.

Bills maturing in official hands, repayment of late assistance, and a take-up of Treasury bills drained £193m, with the unwinding of repurchase agreements on bills absorbing £877m, and bank balances below target £78m. These outweighed Exchequer transactions adding £365m to liquidity, and a fall in the note circulation of £70m.

In Frankfurt call money was steady at 3.25 p.c. in quiet trading, with dealers expecting the Bundesbank to keep the money market well supplied with funds, to avoid upward pressure on interest rates.

The Bundesbank set a tender for a 28-day securities repurchase agreement tender, at an unchanged fixed rate of 3.25 p.c. An earlier agreement of DM14.5bn expires today.

Dealers will not be surprised if the central bank does not fully replace the total amount draining from the market, but believe it remains available to provide extra liquidity, if required, later this month.

The general liquidity situation is regarded as good, with tax payments only draining funds towards the end of next week.

FT LONDON INTERBANK FIXING

(11.00 a.m. Apr 12)	3 months US dollars	6 months US Dollars
	bid 7 / offer 7⅛	bid 7⅜ / offer 7½

MONEY RATES

NEW YORK	
[illegible]	[illegible]

Apr.12	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Apr.12	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FINANCIAL FUTURES

Gilts hold in narrow range

TRADING WAS subdued on Liffe, in a market lacking fresh factors, and waiting to see if there will be any impact from the Group of Seven meeting this week, and tomorrow's US trade figures.

Long term gilt futures opened weak, with June delivery at 122-03, compared with 122-10 at the previous settlement. Turnover on the day was a modest 22,455, virtually unchanged from Monday, and the contract showed no sign of breaking out of its recent trading range.

Sterling remained a major factor influencing the market, on uncertainty about the direction of the currency, and whether it will test DM3.15, after profit taking has run its course.

The long gilt contract tended to recover as the pound bounced off its low against the D-Mark, to show a generally better performance in the afternoon.

June long gilts touched a low of 121-30, but then pushed up to a high of 122-25, before closing at 122-22.

Apart from the news from Washington this week, traders are also waiting for a guide to UK inflation from Friday's figures on average earnings, and retail prices.

Three-month sterling deposit futures also opened weak, at 91.49 for June delivery, but this was near the day's low of 91.48. The contract recovered with the pound, to finish at 91.58, against 91.55 on Monday.

US Treasury bond futures closed lower, with June delivery at 90-13, compared with 90-21, in nervous selling, triggered by higher energy prices, and uncertainty ahead of the G7 and trade news from Washington later this week.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
116	648	—	4	—
118	453	—	9	—
120	308	—	28	—
122	144	—	100	—
124	52	—	208	—
126	21	—	341	—
128	7	—	527	—

Estimated volume total, Calls 865 Puts 1840
Previous day's open int. Calls 34934 Puts 24875

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-settlements Jun	Calls-settlements Sep	Puts-settlements Jun	Puts-settlements Sep
84	640	619	14	57
86	451	455	25	129
88	309	340	47	214
90	150	231	124	305
92	51	144	225	418
94	22	107	360	545
96	10	44	548	718

Estimated volume total, Calls 35 Puts 35
Previous day's open int. Calls 2498 Puts 923

LIFFE FT-SE INDEX FUTURES OPTIONS

Strike Price	Calls-settlements Apr	Calls-settlements MAY	Puts-settlements Apr	Puts-settlements MAY
16500	1701	1753	1	53
17000	1211	1322	11	122
17500	738	944	58	244
18000	394	634	194	434
18500	161	399	461	699
19000	50	234	850	1034
19500	12	128	1312	1428

Estimated volume total, Calls 10 Puts 0
Previous day's open int. Calls 35 Puts 209

LIFFE £/$ OPTIONS

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

LIFFE EURODOLLAR OPTIONS

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

LIFFE SHORT STERLING

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

PHILADELPHIA SE £/$ OPTIONS

Strike Price	Calls	Puts
[illegible]	[illegible]	[illegible]

LONDON SE £/$ OPTIONS

Strike Price	Calls-settlements	Puts-settlements
[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

	Latest	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CURRENCY FUTURES

	Close	High	Low	Prev.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Legal Notices

KEEFE-CONNING ASSOCIATES, LTD (registered in England No 1880187)

Proposed payment out of capital pursuant to Companies Act 1985, Section 171

NOTICE is hereby given pursuant to Section 175 of the Companies Act 1985 that:

(1) KEEFE-CONNING ASSOCIATES, LTD ("the Company") has by a Special Resolution passed on April 6, 1988 approved a payment out of capital for the purpose of acquiring by purchase 80 Ordinary Shares of £1 each in the capital of the Company

(2) The permissible capital payment (as defined in Section 171 of the said Act) for such shares is US$7,951.

(3) The statutory declaration of the Company's directors and the report of the Company's auditors required by Section 174 of the said Act in respect of such payment out of capital are available for inspection by any member or creditor of the Company at the Company's registered office: Ludgate Circus, One Farringdon Street, London EC4M 7LH, during business hours on any day (except a Saturday, Sunday or public holiday) up to and including May 18, 1988.

(4) Any creditor of the Company may at any time up to and including May 18, 1988 apply to the Mayor's & City of London County Court under Section 176 of the said Act for an order prohibiting such payment out of capital.

April 12, 1988 Sally A Stowe Secretary

Ludgate Circus, One Farringdon Street, London EC4M 7LH

IN THE MATTER OF THE INSOLVENCY ACT 1986

WELLS O'BRIEN & COMPANY LIMITED [illegible]

WELLS O'BRIEN (CENTRAL) LIMITED [illegible]

WELLS O'BRIEN (NATIONAL) LIMITED [illegible]

WELLS O'BRIEN (SOUTH WEST) LIMITED [illegible]

NOTICE IS HEREBY GIVEN that the Creditors of the four above-named Companies, which were wound-up under Creditors' Voluntary Windings-Up on 11th October 1983, and which were consolidated under a Voluntary Arrangement dated 10th December 1987, are required, on or before 22nd April 1988 to send in their full Christian and Surnames, their Addresses and Descriptions, full particulars of their debts or claims, and the Names and Addresses of their Solicitors (if any), to the undersigned Brian Mills F.I.P.A. of Messrs. Booth, White & Company, 1 Wardrobe Place, Carter Lane, St. Paul's, London, EC4V 5AJ the Liquidator of the said Companies, and, if so required by notice in writing from the said Liquidator, are personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

Dated this 28th day of March 1988. BRIAN MILLS LIQUIDATOR

FT 30	FTSE 100	WALL STREET
Apr. 1434/1446 n/c	Apr. 1807/1819 -6	Apr. 2090/2104 +2
Jun. 1444/1456 n/c	Jun. 1819/1831 -7	Jun. 2096/2100 +2

Prices taken at 5pm and change is from previous close at 9pm

EUROPEAN OPTIONS EXCHANGE

Series		May 88 Vol	May 88 Last	Aug. 88 Vol	Aug. 88 Last	Nov. 88 Vol	Nov. 88 Last	Stock
GOLD C	$460	100	5.50	-	-	-	-	$451.40
GOLD C	$480	91	2	-	-	-	-	$451.40
GOLD P	$440	131	4	-	-	-	-	$451.40
		Apr 88		May 88		Jun 88		
EOE Index C	Fl. 190	20	24	-	-	-	-	Fl. 213.41
EOE Index C	Fl. 200	27	12.30	74	13.50	-	-	Fl. 213.41
EOE Index C	Fl. 205	20	8.50	2	10.40 A	8	12.50	Fl. 213.41
EOE Index C	Fl. 210	196	4	23	7.40	-	-	Fl. 213.41
EOE Index C	Fl. 215	11	1.50	57	5.50	12	7.20	Fl. 213.41
EOE Index P	Fl. 190	20	0.10	6	2	6	3.80	Fl. 213.41
EOE Index P	Fl. 195	89	0.20	30	3.50	-	-	Fl. 213.41
EOE Index P	Fl. 200	217	0.10	40	5	20	7.50	Fl. 213.41
EOE Index P	Fl. 205	36	0.70	84	6.60	12	9.10	Fl. 213.41
EOE Index P	Fl. 210	165	2	24	8.90	23	11.90	Fl. 213.41
EOE Index P	Fl. 220	54	8.80	-	-	-	-	Fl. 213.41
£/Fl C	Fl. 355	-	-	25	1	-	-	Fl. 350.31
$/Fl C	Fl. 185	585	4.60	-	-	-	-	Fl. 189.09
$/Fl C	Fl. 190	100	1	86	1.60	202	2.60	Fl. 189.09
$/Fl C	Fl. 195	-	-	670	0.55	-	-	Fl. 189.09
$/Fl P	Fl. 180	2	0.10	500	0.45	19	1.10	Fl. 189.09
$/Fl P	Fl. 185	20	0.20	21	1.55	27	2.30 B	Fl. 189.09
$/Fl P	Fl. 190	565	1.80	10	3.50	-	-	Fl. 189.09
		Apr 88		Jul. 88		Oct. 88		
ABN C	Fl 40	363	0.70	85	1.90	135	2.80	Fl 40.20
ABN P	Fl 40	3	0.40	56	2.40	10	3.80	Fl 40.20
AEGON C	Fl 75	390	1.80	70	3.70	32	5	Fl 76.60
AHOLD C	Fl 75	95	0.40	10	2.30	-	-	Fl 73.10
AKZO C	Fl 110	606	0.90	834	5.20	41	8.40	Fl 108.80
AKZO P	Fl 110	56	2.40	45	10	-	-	Fl 108.80
AMEV C	Fl 55	32	0.30	63	2.80	1	4.30	Fl 53.40
AMRO C	Fl 70	41	0.10	111	1.90	14	2.80	Fl 68
AMRO P	Fl 65	5	0.10	12	3	125	4.70	Fl 68
BUHRMANN-T C	Fl 45	132	1.60 B	48	3.50	72	4.70	Fl 46.80
BUHRMANN-T P	Fl 45	2	0.30	52	3 B	15	4	Fl 46.80
ELSEVIER C	Fl 50	207	1.80	58	3.80	15	5.50	Fl 51.80
ELSEVIER P	Fl 55	1	3.50	3	6	50	7	Fl 51.80
GIST-BROC. C	Fl 35	36	0.30	397	2.10	60	3.40	Fl 34.10
GIST-BROC. P	Fl 30	-	-	45	1.10	-	-	Fl 34.10
HEINEKEN C	Fl 130	191	3.80	79	9 A	-	-	Fl 134
HEINEKEN P	Fl 120	-	-	35	3.50	-	-	Fl 134
HOOGOVENS C	Fl 35	192	2	134	4.50	24	4.90	Fl 37
HOOGOVENS P	Fl 35	121	0.50	32	2.30	7	3.60	Fl 37
KLM C	Fl 35	1152	1.70	204	3.50	131	4	Fl 36.40
KLM P	Fl 35	117	0.20	56	1.80	76	3.50	Fl 36.40
KNP C	Fl 136.40	43	0.70	83	5.70	2	8.50 A	Fl 133
KNP P	Fl 136.40	157	3.70	115	7.40	-	-	Fl 133
KNP C	Fl 140	-	-	157	5.20	3	8	Fl 133
KNP P	Fl 130	-	-	76	4.70	1	6	Fl 133
NEDLLOYD C	Fl 230	414	8.90	182	24	16	29.90	Fl 235.50
NEDLLOYD P	Fl 230	136	4	6	19	-	-	Fl 235.50
NAT.NED. C	Fl 60	266	1.40	312	3.50	29	4.10	Fl 61.20
NAT.NED. P	Fl 55	70	0.10	-	-	-	-	Fl 61.20
PHILIPS C	Fl 27.50	705	1.80	98	2.30	9	3	Fl 29.50
PHILIPS P	Fl 55	402	27	-	-	-	-	Fl 29.50
ROYAL DUTCH C	Fl 230	988	3.30	555	7.50	123	9.10	Fl 232
ROYAL DUTCH P	Fl 220	24	0.20 B	272	7	14	12	Fl 232
ROBECO P	Fl 90	-	-	29	3.20	-	-	Fl 93.30
UNILEVER C	Fl 120	510	0.20	104	3.70	5	6.50	Fl 114.70
UNILEVER P	Fl 120	92	6.50	57	11.50	-	-	Fl 114.70

TOTAL VOLUME IN CONTRACTS : 37,849

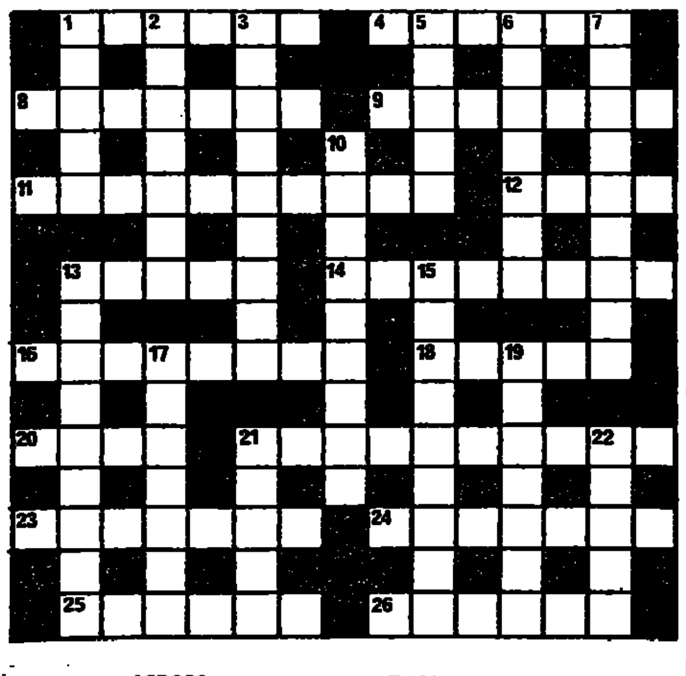
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	8	Citibank NA	8	Nat Bk. of Kuwait	8
Adam & Company	8	City Merchants Bank	8	NatWestminster	8
AAB - Allied Arab Bk	8½	Clydesdale Bank	8	Northern Bank Ltd	8
Allied Irish Bank	8	Comm. Bk.N.East	8	Norwich Gen. Trust	8
Henry Ansbacher	8½	Consolidated Cred	8½	PK Finans. Intl(UK)	9
ANZ Banking Group	8	Co-operative Bank	*8	Provincial Bank PLC	9½
Associates Cap Corp	10	Cyprus Popular Bk	8½	R. Raphael & Sons	8
Authority Bank	8	Dunbar Bank PLC	8	Roxburghe G'rantee	9½
B & C Merchant Bank	8	Duncan Lawrie	8	Royal Bk of Scotland	8
Banco de Bilbao	8	Equatorial Bank plc	8½	Royal Trust Bank	8
Bank Hapoalim	8	Exeter Trust Ltd	8½	Smith & Williams Secs.	8
Bank Leumi (UK)	8	Financial & Gen. Sec	8	Standard Chartered	8
Bank Credit & Comm	8½	First Nat. Sec. Ltd.	9½	TSB	8
Bank of Cyprus	8½	● Robert Fleming & Co.	8½	UDT Mortgage Exp	‡9¾
Bank of Ireland	8	Robert Fraser & Ptnrs.	9	United Bk of Kuwait	8
Bank of India	8	Girobank	8	United Mizrahi Bank	8
Bank of Scotland	8	Grindlays Bank	8	Unity Trust Bank Plc	8
Banque Belge Ltd	8	● Guinness Mahon	8	Western Trust	8
Barclays Bank	8	HFC Bank PLC	8	Westpac Bank Corp.	8
Benchmark Bank PLC	8½	● Hambros Bank	8	Whiteaway Laidlaw	8½
Berliner Bank AG	8	Heritable & Gen Inv Bk	8	Yorkshire Bank	8
Brit Bk of Mid East	8	● Hill Samuel	§8		
● Brown Shipley	8	C. Hoare & Co.	8		
Business Mtge Tst	8½	Hongkong & Shangh	8		
CL Bank Nederland	8	Lloyds Bank	8		
Central Capital	8	Meghraj Bank Ltd	8		
● Charterhouse Bank	8	Midland Bank	8		
		Mount Bnkg Corp.	8½		

● Members of the Accepting Houses Committee. * 7 day deposits 3.50% Savewise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.81%. At call when £10,000+ remains deposited. ‡ Mortgage base rate. § Demand deposit 3.50%. Mortgage 9.125% - 9.5%

FT CROSSWORD No.6,604
SET BY TANTALUS



ACROSS

1 Where to drink, gamble and see a singer (6)
2 Man on board makes blunder going to work (6)
8 Where to put 10 out (8-4)
9 No one has time to return for paper (7)
11 Mark and the French girl get a fever (10)
12 Headgear for poet (4)
13 Very musical in class – aims to sing (5)
14 Disguised Latvian carries English flap for helmet (8)
16 Like seeing new trustee (8)
18 Engineer is going back north for compound (5)
20 Finish about one to meet Geraint's wife (4)
21 Guitar playing causes a hold-up (6-4)
23 Edward receives the strap (7)
24 Young creature always allowed outside (7)
25 Number of coins made at one time come by chance (6)
26 Seeing tension, ordered rest on ship (6)

DOWN

1 Scholar so fundamental (5)
2 Sends back tickets (7)
3 Oriental mother with people coming out (9)
5 Fashionable to help up in Asia (5)
6 This man is a militant journalist (7)
7 Advertising advancement (9)
10 Health risk could be in 8 (9)
13 Sailor directed to look up but they are not here! (9)
15 Enlist chaps on time to make register (9)
17 Old writer at home tried novel (7)
19 Genuine because extremely rare (7)
21 Colourless fish (5)
22 4 seen in this game (5)

Solution to Puzzle No.6,603

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JACKANDJILL SAG
U O B A N O C A
GULLY LEVIATHAN
O L S L O T O D
SLAPSTICK HOOCH
L R E E S L I
AVENUES STOP
V D N M I B
 INNS BREEDER
S C A T U E A
PILOT UNCERTAIN
A A U D K E L M
SURFRIDER LEILA
M E A E A I S S
SET LADYMACBETH
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FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Scottish Equitable Fund Mgrs. Ltd(z)
28 St Andrews Sq, Edinburgh 031-556 1051

Int'l Income	130.3	138.3xd	+5.2	3.21
Int'l Accum	200.0	212.2xd	+6.0	3.21
UK General Acc	38.3	40.9	+0.2	3.38
UK General Inc	36.9	39.4	+0.2	3.38
American	27.7	29.5	+0.1	2.13
European	34.9	37.2	+0.4	1.26
Japan	59.7	63.7	+0.6	0.03
Technology	35.3	37.6xd	+0.2	2.29
Performance Trusts				
Far East Perf	19.4	20.7	—	2.00
High Inc Perf Inc	24.0	25.6	+0.2	5.36
High Inc Perf Acc	24.5	26.1	+0.1	5.36
W'wide Tech Perf	28.1	30.1xd	+0.1	2.72

Scottish Life Investments(z)
19 St Andrew Sq, Edinburgh 031-225 2211

Nelson (UK)	211.4	226.2	+1.0	2.6
Columbus (US)	131.8	141.0	+1.1	1.26
Marco Polo (Pac)	222.9	238.5	+0.9	0.16
Da Vinci (Eur)	224.3	239.9	+3.0	1.60
Drake (Ww)	53.2	57.0	+0.2	2.56

Scottish Mutual Investment Managers Ltd
109 St Vincent St, Glasgow G2 5HN 041-248 6100

UK Equity	205.2	218.3	+1.2	2.69
UK Smllr Cos Equity	208.5	221.6	+1.3	2.96
UK Spec Sits	61.5	65.5	+0.2	2.87
Income Plus	52.8	56.2	+0.1	5.53
European	162.2	172.6	+2.0	1.28
Far Eastern	54.2	57.7	+0.3	1.83
Japanese	57.4	61.1	+0.4	—
North American	112.6	120.0	+0.8	1.47
Int'l Growth	110.7	117.8	+1.3	0.92
Worldwide Venture	52.9	56.3	+0.2	3.25

Scottish Provident Inv. Mgt. Ltd
6 St Andrew Sq, Edinburgh 2 031-558 2361/2/5

Equity Growth Tst Acc	17.77	19.02	+0.10	3.13
Equity Growth Tst Inc	17.60	18.84	+0.11	3.13
Int'l Growth Tst Acc	17.75	19.00	+0.11	1.66
Int'l Growth Tst Inc	17.65	18.98	+0.11	1.66
Global Income Tst Acc	19.17	20.52	+0.40	5.31
Global Income Tst Inc	19.17	20.52	+0.40	5.31
Market Leaders Tst Acc	16.54	17.70	+0.02	3.28
Market Leaders Tst Inc	16.32	17.47	+0.03	3.28

Scottish Unit Managers
48 Melville Street, Edinburgh EH3 7HF 031-226 4372

Pacific (z)	83.8	89.0	+0.4	0.00
Income	53.1	56.4	+0.2	3.99
European (z)	34.3	36.5	+0.7	1.17
Nth American (z)	28.2	29.9	+0.2	0.77
Int'l Growth	[illegible]	[illegible]	[illegible]	[illegible]

UK Unit Trust Managers Ltd
Worthing Road, Horsham, RH12 1SL 0403-40033

British Growth	58.2	62.0	(z)	1.72
Technical Analysis	49.9	53.1	(z)	3.42

Unit Trust Account & Mgmt. Ltd
20 Copthall Ave, London, EC2R 7PA 01-588 6064
Advisors: Henderson Crosthwaite Ltd

Friars Hse Cap	176.8	188.1	—	3.34
Friars Hse Inc	154.5	164.7	—	5.26

United Charities Unit Trusts (a)(c)(g)
Unicorn Hse, 252 Romford Rd, E7 01-534 5544

United Charities	164.8	175.4xd	—	4.84

Vanguard Trust Managers Ltd (z)
65 Holborn Viaduct, London EC1A 2EU 01-236 3053
Dealing Line: 01-236 2468

Greyfriars	183.1	194.8xd	—	1.49
(Accum Units)	187.2	199.2	—	1.49
Far East & Gen	56.4	60.0	+0.3	—
(Accum Units)	56.4	60.0	+0.3	—
Master Portfolio	64.098	68.613	+0.236	3.08
(Accum Units)	65.750	70.513	+0.242	3.08
American & Gen	55.6	59.2xd	+0.8	1.76
(Accum Units)	57.1	60.8	+0.8	1.76
Growth	212.3	225.9xd	+2.9	2.48
(Accum Units)	320.1	340.5	+4.2	2.48
High Yield	267.1	284.2	+3.8	4.45
(Accum Units)	286.6	304.9	+3.2	4.45
Special Sits	52.4	55.7	+0.7	2.19
(Accum Units)	54.1	57.5	+0.7	2.19
Trustee	157.6	167.7xd	+2.9	4.14
(Accum Units)	256.0	272.3	+4.7	4.14
European Fund Inc	36.6	39.0	+0.5	0.68
(Accum Units)	36.8	39.2	+0.5	0.68

Wardley Unit Trust Managers Ltd (a)
99, Bishopsgate, London, EC2P 2LA 01-374 0061

American Tst	52.2	55.8	+0.6	1.4
Intl. Growth Tst	66.6	70.4	+0.6	0.4
Income Tst	112.3	120.2xd	—	5.4
Japan Growth Tst	183.7	196.5	+2.5	0.1
Pacific Perf. Tst	119.0	126.0	+1.6	0.4
Small Cos. Tst	138.6	148.2xd	+1.1	1.6
Tchnlgy. Tst	32.7	34.9	+0.4	0.1
Australia Trust	49.0	52.5	+0.1	1.3
UK Trust	161.2	170.6	+0.2	2.7
European Growth Tst	41.2	43.5	+0.2	0.1
Hong Kong Tst	26.6	28.2xd	+0.1	1.3
Intl Income Tst	19.6	20.9	-0.2	8.5
Singapore & Malyn Gwth	18.2	19.3	+0.2	1.0
British Winners	25.6	27.3xd	-0.2	4.0

Waverley Asset Management Ltd (a) (c) (g)
13 Charlotte Sq, Edinburgh 031-225 1551

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INSURANCES

[illegible]

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941

Life Assurance Funds				
Wealth Assur.	374.4	394.2	—	—
Eb'r Ph. Eq.	341.0	362.5	—	—
Pension Plan Funds				
Phoenix				
UK Equity Acc.	166.2	174.9	+0.9	—
International Acc.	127.7	134.4	-0.4	—
Property Acc.	127.7	134.4	—	—
Fixed Interest Acc.	157.0	165.2	-0.5	—
Money Acc.	138.2	145.4	+0.1	—
Bldg. Soc. Link Acc.	135.2	142.3	+0.1	—
Special Mngd. Acc.Q.	147.8	155.5	+0.2	—
Phoenix/Framlington				
Intnl. Growth Acc.	88.1	92.7	+1.1	—
Amer. & Gen. Acc.	83.0	87.3	+1.0	—
Capital Tst. Acc.	168.5	177.3	+2.8	—
Japan & Gen Acc.	186.6	196.4	+1.0	—
American Turn. Acc.	85.7	90.2	+1.3	—
Recovery Tst. Acc.	169.4	178.3	+2.5	—
Special Mngd Acc.	142.3	149.7	+1.7	—
Phoenix/GT				
International Acc.	121.1	127.4	+0.9	—
US & General Acc.	88.9	93.5	+1.6	—
Amer Spec Sits Acc.	65.5	68.9	+0.8	—
Japan & General Acc.	181.9	191.4	+0.7	—
Far East & Gen. Acc.	142.9	150.4	+1.3	—
UK Capital Acc.	170.8	179.7	+3.4	—
European Acc.	130.0	136.8	+0.1	—
Special Mngd. Acc.	125.4	131.9	+1.7	—

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd, N. Waterloo, Liverpool 051-928 6655

Managed Fund	256.5	270.1	—	—
Max Pens Inc & Cap Fds.	324.0	341.1	—	—
Money Fund	111.9	117.8	—	—
Pens. Mngd Fd (Init)	80.0	84.3	—	—
Pens Mngd Fd (Acc)	90.5	95.3	—	—
Pens FT30 Fd (Init)	122.4	128.9	—	—
Pens FT30 Fd (Acc)	138.3	145.6	—	—
Pens O'seas MgFd(Init)	54.8	57.7	—	—
Pens O'seas MgFd(Acc)	62.0	65.3	—	—
Pens Fxd Int. Fd (Init)	106.5	112.2	—	—
Pens Fxd Int. Fd (Acc)	120.4	126.8	—	—
Pens Deposit Fd (Init)	101.1	106.5	—	—
Pens Deposit Fd (Acc)	114.3	120.4	—	—

Premium Life Assurance Co Ltd

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222

Prufund				
Managed Apr 6	194.8	203.0	—	—

Prudential Holborn Life Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed Fd.	433.0	455.8	—	—
Equity Fd.	870.2	916.1	—	—
Intnl. Fd.	309.4	325.7	—	—
Fixed Int. Fd.	369.0	388.5	—	—
Prop. Fd.	317.5	334.0	—	—
Cash Fd.	235.8	248.3	—	—
Pacific Basin Fd.	172.8	181.9	—	—
North American Fd.	126.2	132.9	—	—
European Fd.	123.5	130.0	—	—
Holborn Balanced Gth Fd.	98.9	104.2	—	—
Holborn Strategic Gwth Fd.	97.7	102.9	—	—

Prudential Holborn Pensions Ltd
30 Old Burlington St, London W1X 1LB 01-439 3134

Managed	465.5	490.1	—	—
Equity	655.2	689.7	—	—
Global Equity	197.4	207.8	—	—
Fixed Interest	380.6	400.7	-0.8	—
Property	312.4	328.9	—	—
Cash	139.0	146.4	—	—
Index Linked Gilt	166.4	175.2	-0.8	—
Guaranteed	8.43	—	—	—
International Money	182.3	191.9	—	—
North American Fd.	57.0	60.1	—	—
Japanese Fund	124.2	130.8	—	—
European Fund	67.0	70.6	—	—
Special Situations Fd.	94.1	99.10	—	—
Communications Fund	78.6	82.8	—	—
Smaller Cos Fund	97.4	102.6	—	—

Prudential Pensions Limited
Holborn Bars, London EC1N 2NH 01-405 9222

Discretry Mar 30	£121.46	124.88	—	—
Equity Fund Mar 30	£129.04	132.92	—	—
Intnl Fund Mar 30	£19.77	20.41	—	—
Int'l Bond Fd Mar 30	£10.10	10.24	—	—
Fixed Int Mar 30	£68.07	69.77	—	—
Index Linked Mar 30	£52.27	52.90	—	—
Property Fund Mar 30	£81.70	86.23	—	—

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

1988 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
[illegible]	[illegible]	Exch 10½pc '88	[illegible]	......	10.48	8.01
[illegible]	[illegible]	Treas 9¾pc Cv '88	[illegible]	......	9.73	7.92
[illegible]	[illegible]	Transport 3pc '78-88	[illegible]	[illegible]	3.02	6.19
[illegible]	[illegible]	Treas. 9½pc '88	[illegible]	[illegible]	9.49	8.22
[illegible]	[illegible]	Treas 11½pc 1989	[illegible]	[illegible]	11.22	8.37
[illegible]	[illegible]	Treas 9½pc Cnv 1989	[illegible]	[illegible]	9.40	8.42
[illegible]	[illegible]	Treas 3pc 1989	[illegible]	......	3.10	6.08
[illegible]	[illegible]	Treas 10½pc 1989	[illegible]	[illegible]	10.28	8.52
[illegible]	[illegible]	Exch 10pc 1989	[illegible]	[illegible]	9.83	8.54
[illegible]	[illegible]	Exch 11pc 1989	[illegible]	[illegible]	10.65	8.51
[illegible]	[illegible]	Treas 5pc 1986-89	[illegible]	......	5.16	7.12
[illegible]	[illegible]	Exch 10¼pcCv '89	[illegible]	[illegible]	9.84	7.42
[illegible]	[illegible]	Treas 13pc 1990‡‡	[illegible]	......	12.13	8.45
[illegible]	[illegible]	Exch 11pc 1990‡‡	[illegible]	[illegible]	10.57	8.55
[illegible]	[illegible]	Exch. 12½pc 1990	[illegible]	......	11.69	8.55
[illegible]	[illegible]	Treas. 3pc 1990	[illegible]	[illegible]	3.21	6.37
[illegible]	[illegible]	Treas 8¼pc 1987-90‡‡	[illegible]	[illegible]	8.30	8.56
[illegible]	[illegible]	Treas. 8pc Cv 1990	[illegible]	......	7.87	7.18
[illegible]	[illegible]	Treas. 10pcCv 1990	[illegible]	......	9.70	8.63
[illegible]	[illegible]	Exch 2½pc 1990	[illegible]	......	2.74	6.15
[illegible]	[illegible]	Treas 11¾pc 1991	[illegible]	[illegible]	10.94	8.64
[illegible]	[illegible]	Funding 5¾pc '87-91‡‡	[illegible]	......	6.04	7.58
[illegible]	[illegible]	Treas. 3pc 1991	[illegible]	[illegible]	3.33	6.57
[illegible]	[illegible]	Treas 10pc Cv '91 ‡‡	[illegible]	[illegible]	9.51	8.17
[illegible]	[illegible]	Exch. 11pc 1991	[illegible]	[illegible]	10.27	8.63
[illegible]	[illegible]	Treas. 8pc 1991	[illegible]	......	8.16	8.61
[illegible]	[illegible]	Treas 12¾pc 1992‡‡	[illegible]	......	11.31	8.71
[illegible]	[illegible]	Treas 10pc 1992	[illegible]	[illegible]	9.60	8.70
[illegible]	[illegible]	Treas. 8pc 1992 ‡‡	[illegible]	......	8.17	8.62
[illegible]	[illegible]	Treas 10½pc Cv 1992‡‡	[illegible]	......	9.92	8.75
[illegible]	[illegible]	Treas. 3pc 1992	[illegible]	......	3.48	6.88
[illegible]	[illegible]	Exch. 12¼pc '92	[illegible]	[illegible]	10.92	8.82
[illegible]	[illegible]	Exch 13½pc 1992	[illegible]	[illegible]	11.56	8.83

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS – Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Contd

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
19	11	Staley Continental	19	+2¼	80c	–	2.3
32⅞	27⅞	Sun Co. Inc. $1	32⅞	+⅛	$3.00	–	5.0
28¾	25⅝	TRW Inc. 62½c	26⅜	+⅛	$1.60	–	3.3
25¾	21¼	Tenneco $5	24⅝	+⅛	$3.04	–	6.9
26⅝	19⅞	Texaco $6.25	28¼		$3.00	–	6.2
52⅞	43¼	Time Inc. $1	48¼	+1⅝	$1.00	–	1.1
20⅝	15⅞	Transamerica $1	17⅝	+⅛	$1.84	–	5.7
10	754p	Transworld Corp $5	986p	–6	20c	–	1.1
20¼	15	TRINOVA Corp	17⅜	+⅛	56c	–	1.7
19	15¼	USX $1	17⅝	+⅞	$1.20	–	3.8
23	17⅝	Utd. Technologies	22⅛	+⅜	$1.40	–	3.5
31½	26¼	US West	29¼	+⅛	$3.52	–	6.6
21¼	18¼	Waste Management $1	18⅞	+⅛	36c	–	1.0
16¼	12⅞	Whirlpool $1	14½	+⅛	–	–	–
30¼	18¼	Woolworth $3½	29¼	–⅛	$1.32	–	2.5

CANADIANS

1988 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
309p	190p	ABM Gold Corp	212p	+9	–	–	–
32p	16½p	Abbot Energy Corp	25½p		–	–	–
14¼	990p	Amer. Barrick Res.	11¼	+⅛	–	–	–
10p	3½p	American Lightwave	8½p	–½	–	–	–
47p	24p	Armeno	24½p	–½	–	–	–
76p	48p	Augmitto Expln.	53p	+1	–	–	–
12¼	10¼	Bk. Montreal	11½		$2.00	–	7.7
599p	528p	Bk. Nova Scot.	545p	+6	72c	–	5.8
17½	15¼	BCE	16⅜		$2.44	–	6.5
716p	591p	Bow Valley	698p	+12	40c	–	2.8
12¼	10½	Brascan	11½		88c	–	3.4
328p	189p	Bralorne Res.	230p		10c	–	1.9

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LONDON SHARE SERVICE

INSURANCES—Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

... estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	ψ	68	......
Craig & Rose £1	ψ	680	......
Finlay Pkg. 5p	ψ	77	......
Holt (Jos) 25p	ψ	£11½	−¼

IRISH

Fund 11¾% 1988	£100¼	......
Nat. 9¾% 84/89	£101½	......
Fin. 13% 97/02	£117¾	......
Arnotts	300	......
CPI Hldgs	88	......
Carroll Inds	151	......
Hall (R. & H.)	104½xd	......
Heiton Hldgs	42	+1
Irish Ropes	118½xd	......
Unidare	395	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	35	NEI	10
Amstrad	15	Nat West Bk	60
BAT	45	P & O Dfd	52
BOC Grp	40	Plessey	16
BSR	10	Polly Peck	32
BTR	28	Racal Elect	22
Barclays	48	RHM	35
Beecham	46	Rank Org Ord	60
Blue Circle	42	Reed Intal	45
Boots	24	STC	25
Bowaters	38	Sears	14
Brit Aerospace	35	TI	35
Brit. Telecom	22	TSB	12
Burton Ord	24	Tesco	16
Cadburys	26	Thorn EMI	60
Charter Cons	32	Trust Houses	22
Comm Union	35	T&N	20
Courtaulds	34	Unilever	50
FKI Babcock	14	Vickers	18
FNFC	25	Wellcome	42
Gen Accident	85	**Property**	
GEC	15	Brit Land	28
Glaxo	110	Land Securities	48
Grand Met	42	MEPC	48
GUS 'A'	110	Peachey	40
Guardian	87	**Oils**	
GKN	30	Brit Petroleum	25
Hanson	14	Britoil	50
Hawker Sidd	40	Burmah Oil	45
ICI	100	Charterhall	6
Jaguar	35	Premier	8
Ladbroke	38	Shell	110
Legal & Gen	30	Tricentrol	18
Lex Service	35	Ultramar	24
Lloyds Bank	28	**Mines**	
Lucas Inds	42	Cons Gold	186
Marks & Spencer	20	Lonrho	29
Midland Bk	35	RTZ	38
Morgan Grenfell	35		

A selection of Options traded is given on the London Stock Exchange Report Page

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £940 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Mar 21	Apl 7	Apl 8	Apl 18
Apl 11	Apl 21	Apl 22	May 3
Apl 25	Mar 5	Mar 6	Mar 16

*New time dealings may take place from 9.00 am two business days earlier.

Trading volumes thin as bonds and equities await currency news from G7 meeting

THE UK SECURITIES markets traded nervously yesterday, taking their cue from the uncertainty in the currency markets ahead of today's meeting in Washington of the world's leading finance ministers – to be followed by the Group of Seven meeting and disclosure of the latest US trade figures.

Equities were depressed at the close by rumours of another impending rights issue in the London market but steadied after Tesco, the UK supermarket group, denied any such intentions.

Once again, the significant factor in equities was the lack of turnover. Seaq volume totalled 364.7m shares, with many second-line issues still on the sidelines. The blue chip exporting stocks mostly closed lower, after shedding early gains, but the domestic banking sector, which has been flat since Barclays announced its £921m rights issue, looked steadier. Although last night's rumours were largely discounted, traders remain convinced that further rights issues are in the pipeline.

The share market moved higher at first behind a strong Tokyo market. The big exporting stocks advanced when sterling appeared to be extending Monday's fall, but slipped back later.

The FT-SE 100 Index closed a net 5.2 off at 1805.3, after clearing 1820 at its best level. Traders were disappointed with the failure to hold above 1810, but sounded confident of a further advance in equities – if the G-7 ministers announce significant progress towards providing a new floor for the dollar.

The international stocks traded sluggishly. Glaxo closed uneasily as the City awaited news from an important presentation to market analysts, at which plans for research and development expenditure are expected. The bulk of turnover in Hanson (1.7m shares) represented buying in London to meet American Depositary Receipts bought in the US.

Government bonds initially lost about ¼ point towards the long end as the pound gave ground but rallied at mid-session as a City forecaster argued the case for firmness in the UK currency. Professional bond traders sounded unconvinced, but suggested that the pound could stabilise just below current DM levels - for the near term at least.

Medium and short-dated Gilts closed unchanged on the day but gains of around ¼ were finally recorded among the longs. Once again, there was activity in the Index-linked (I-L) sector, concentrated mostly in the nearer dates. The authorities were able to sell some of the I-L tap stock, Treasury 2 per cent '92, at 101 ⅜, just ⅛ above the last traded price. But the rest of the sector ended with net falls of ⅛ or so.

GEC topped the list of active stocks in electronics issues with turnover topping 12m, including a single deal of 2.5m at 149½p, much of which was transacted on the inter-dealer broker screens. The shares, among the market's busiest in the past few weeks, moved up to 151p at one point before closing a net 1½ firmer at 149p following a "buy" recommendation from Kleinwort Grieveson, the securities house.

After a visit to GEC last Friday Kleinworts say the stock is "oversold" and "represents good value". The securities house points to GEC's 22 per cent underperformance relative to the market since the beginning of November and suggests the company "can easily afford to increase the dividend".

Tesco, the major UK food retailing group, came under selling pressure amid rumours that the the company might announce a rights issue along with today's preliminary results; the rumour was quickly quashed by the company and the shares, having dipped to 156p at one point, picked up after the denial to close 5 lower on balance at 158p on a turnover of 6m shares.

Analysts expect the company to produce full-year profits in excess of £220m excluding property profits, compared with £166m last time. If property profits are included, the figure is likely to top £230m.

Lex Service raced higher as word went round of the chairman's optimistic remarks at yesterday's annual meeting. Mr Trevor Chinn, chairman and chief executive, spoke of record first-quarter car registrations with automotive profits up 27 per cent on the corresponding period last year.

Mr Chinn said the group's electronic businesses had also got away to a promising start for the year, and that the outlook was very encouraging. Fairly aggressive demand forced the shares persistently higher and the close was the day's best, up 23 at 363p.

Oil and gas stocks turned mixed after Monday's strong showing with profit-taking much in evidence. BP "old" attracted turnover of 2.9m and closed a net 3½ off at 273½p while the "new" where turnover was 6.4m, lost 2 to 77p. British Gas eased 1½ to 182½p.

FINANCIAL TIMES STOCK INDICES

	Apr. 12	Apr. 11	Apr. 8	Apr. 7	Apr. 6	Year Ago	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs	91.07	91.05	91.01	90.80	90.93	89.95	91.07 (12/4)	86.97 (13/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.74	97.81	97.50	97.43	97.49	96.13	97.81 (11/4)	94.14 (8/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1433.7	1433 8	1413.4	1399.4	1386.8	1506.1	1478.7 (4/3)	1349.0 (8/2)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	220.9	221.3	221.4	221.6	228.0	485.0	312.5 (7/1)	220.9 (12/4)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div.Yield	4.48	4.49	4.76	4.60	4.63	3.93				
Earnings Yld %(full)	11.72	11.75	12.47	12.03	12.11	8.86				
P/E Ratio (net)(*)	10.47	10.44	9.73	10.19	10.09	13.95				
SEAQ Bargains (5pm)	24,173	25,715	31,521	26,088	33,189	45,627				
Equity Turnover (£m)	-	26,795	1041.71	891.13	900.35	1362.83				
Equity Bargains	-	907.55	34,102	29,767	40,064	48,687				
Shares Traded (ml)	-	378.1	507.5	415.5	444.1	500.9				

S.E ACTIVITY

Indices	Apr. 11	Apr. 8
Gilt Edged Bargains	150.4	150.9
Equity Bargains	173.6	220.9
Equity Value	1834.4	1041.71
5-Day average		
Gilt Edged Bargains	143.4	147.2
Equity Bargains	224.3	246.3
Equity Value	1860.7	1863.9

♥ Opening	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1437.7	1442.7	1441.0	1440.0	1439.9	1440.2	1438.9	1431.0

Day's High 1444.6 Day's low 1430.9

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.37.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 0898 123001

Burmah jumped to 529p before closing 8 higher on balance at 522p after "buy" recommendations from Morgan Grenfell and UBS Phillips and Drew. The stock also attracted fresh support triggered by the Ardshiel bid for US lubricants group Quaker State. Calor rose 4 to 584p; dealers expect the hived-off Acre Oil to commence trading today around the 180p to 185p mark with Calor around the 400p level.

The big-four banks were quietly mixed. Barclays, depressed recently by the huge £921m rights issue, picked up a few pence to 423p on turnover of 2.3m after US investment house Morgan Stanley turned positive on the stock.

Prudential were a resilient market in life assurances and closed 7 higher at 807p still reflecting recent buy recommendations from Warburg Securities and Sheppards. A stock shortage boosted Commercial Union 6 to 335p.

Sedgwick highlighted insurance brokers and moved up 3 to 211p with SBCI Savory Milln said to have been big buyers of the stock after a major presentation to institutions in Ireland over the weekend; a presentation to fund managers in Scotland is scheduled for today.

Another session of diminishing business ended with Brewery issues showing marginal changes in either direction. Turnover of 2.6m shares was recorded in Allied-Lyons, a shade off at 394p, but this was said to reflect a technical situation more than a renewal of the recent Bond Corporation interest.

RMC continued to attract support ahead of today's preliminary figures and, in a market none-too-well supplied with stock, gained 10 more to 483p. Blue Circle, annual results due on Friday, edged up to 449p prior to closing unchanged at 445p. Second-line housebuilders took a distinct turn for the better following a sector recommendation from County NatWest WoodMac. Charles Church led the field, rising 8 to 123p, while Federated Housing out on 12 to 292p. Berkeley Group were 7 higher at 374p and McCarthy and Stone 6 up at 494p. Elsewhere, Hewden Stuart added 3 to 139p, after 141p, in reply to the excellent annual results and proposed one-for-five scrip issue. Stanley Miller gained 12 to 80p following a lunch with BZW.

In the Chemical sector, Wardle Storeys rose 15 to 615p after favourable comment on the interim results.

Marks and Spencer were the best performer and biggest traded stock in stores with the shares finally up 4 at 184p on turnover of almost 4m. Dealers reported a substantial traded options business and active trading on the inter-dealer broker screens while there was talk of an imminent "buy" recommendation from one of the top UK securities houses.

Ward White dropped 10 to 330p as persistent profit-taking followed the preliminary figures. These were in line with forecasts and accompanied by the expected disposals. Storehouse eased a couple of pence to 250p but stories persisted that a bid for the group is on the cards. Among the second liners In Shops remained a strong market and jumped 4 more to 84p – a two-day rise of 10.

The leading electricals turned easier late in the session and generally closed with widespread but minor falls. Cable & Wireless dipped 5 to 336p and British Telecom 2 to 251p.

Racal, where the GRE announced it had upped its stake to 5.4 per cent, eased a shade to 221½p on turnover of 3m. Market talk of a Flemings "sell" recommendation lowered BSR 4 to 78p.

But FKI Babcock jumped the same amount to 127p after BZW upgrading their profits forecast for this year to £44.5m from £41.5m and for next year from £101m to £106m and joined Flemings and Citicorp in recommending the stock.

Atlantic Computer dipped 10 to 383p on profit-taking after announcing profits up almost 37 per cent. Telephone Rentals' results – up 14 per cent at £19.63m – were deemed disappointing and the shares eased 6 to 205p.

Among the Engineers, news of the agreed purchase of the nuclear interests of Foster Wheeler Power Products failed to excite the market in Rolls-Royce which drifted back to close a couple of pence cheaper at 115p in a volume of some 1.7m shares. A fresh gain of 6 to 258p in Delta Group gave rise to a revival of takeover talk. Buyers continued to show occasional interest in Glynwed which improved afresh to close 9 to the good at 480p while Laird edged up 5 more to 231p.

Tesco aside, Food Retailers gave a resilient performance. J. Sainsbury, where Citicorp Scrimgeour Vickers are recommending a switch from Tesco into the stock, firmed 3 to 242p. Dee hardened a couple of pence to 177p. Elsewhere, Northern Foods gained a penny to 247p on a turnover of 1m shares as takeover speculation revived. Tate and Lyle continued to rally in the wake of the recent rights issue proposal and closed 6 higher at 756p.

International stocks traded on a slightly easier bias as the day's currency movements failed to give a positive lead. BOC, however, managed to resist the trend, closing 5 firmer at 389p, after touching 391p at one stage.

BAA, a shade better at 114p, were one of the day's more actively traded stocks (some 5m shares changed hands) after reporting a 15 per cent growth in passenger traffic for the financial year ending March 31. The company also announced that they are reviewing long term plans for the provision of overall airport capacity in the South East post 1995 and expect to make decisions on these before the end of this year.

Favourable comment on the preliminary figures prompted fresh demand for Cannon Street Investments which advanced 11 further to 285p; BZW, the securities house, believe that the shares look very attractive at current levels in view of the very strong growth in prospect. Sharp and Law, also reflecting annual results, improved further to close 7 dearer at 175p. Demand persisted for Christies International which touched 564p before settling a little below the best at 561p, up 8. Confirmation of the MAI stake (6.13 per cent) left AGB Research up 8 at 218p. Speculative activity prompted a gain of 7 to 165p in A Wood while Amari edged higher on news that Suter has increased its stake in the group to 27.31 per cent. Trading statements left Triangle Trust 10 to the good at 123p and British Fittings, 4 firmer at 212p. Avis Europe, at 335p, held its recent good rise awaiting tomorrow's preliminary figures; Kleinwort Grieveson Securities are looking for pre-tax profits of around £55m for 1988 compared with 34.1m last year.

Brent Walker featured the Leisure sector, the shares rising 9 to 364p as the company's application to renew licences for two of its casinos, Crockfords and Charlie Chesters, were renewed by magistrates. There had been some concern that recent Press revelations about Mr George Walker's past might cast a shadow over the licence renewals, but the company's applications went through unapposed.

Jaguar were unsettled by break-up of the latest talks aimed at averting industrial action over the group's plans for increased productivity and closed 6 down at 284p. Lucas Industries traded ex the rights issue with the old shares closing at 548p and the new nil-paid settling at 50p premium. Elsewhere, Perry Group jumped to 225p before ending 13 up on balance at 215p.

Second-thoughts on the annual results lowered Accord Publications 10 to 155p but EMAP firmed on news of the joint magazine venture with Haymarket to end 4 dearer at 188p. Further consideration of the record profits left Wace higher at 250p while Olives Paper Mill advanced to 136p on improved earnings. Agency WCRS jumped 11 to 237p and Monotype, still reflecting press mention, spurted 22 to 250p.

Courtaulds revived 6 to 336p amid vague speculation of foreign buying; Citicorp Scrimgeour Vickers dismissed a newspaper report suggesting it had recently built up a 2 per cent stake in the premier textile concern.

BAT Industries continued strongly, rising 6 further to 440p, on hopes of a successful conclusion to the Farmers Group affair. Mr Patrick Sheehy, chairman of BAT, admitted yesterday that the UK group would be prepared to pay a price higher than the present $63 cash per Farmers share in a friendly negotiated transaction.

Traded Option acitivy remained brisk, the total number of contracts rising to 32,549 made up of 18,151 calls and 14,398 puts. Energy stocks again featured British Gas which recorded 1,146 calls and 870 puts. Rolls-Royce registered 547 calls and 6,600 puts. The FTSE contract attracted few bid trades, but there was consistent business in small lots of the near-month put series. FTSE calls came out at 923 with puts at 1,654.

Traditional Options

- First dealings Mar 28
- Last dealings Apr 15
- Last declarations June 30
- For Settlement July 11

For rate indications see end of London Share Service

Interest in the Traditional option market expanded yesterday. Stocks favoured for the call included British Petroleum new, Eagle Trust, Thomson T-Line, Hyman, Epicure, Rutland Trust, Burnett and Hallamshire, Polly Peck, Polymark, Sound Diffusion, Dares Estates, Fobel, Lorlin, London Investment Trust, Waterford units, Brasway, Charles Baynes, Explaura and Chancery Securities. Puts were arranged in A.G. Stanley and Matthew Hall, but no double options were reported.

NEW HIGHS AND LOWS FOR 1988

NEW HIGHS (74).
BRITISH FUNDS (2) BUILDINGS (7) CHEMICALS (2) STORES (3) ELECTRICALS (6) HOTELS (2) INDUSTRIALS (9) LEISURE (6) MOTORS (1) NEWSPAPERS (2) PAPERS (5) PROPERTY (8) SHIPPING (2) TEXTILES (2) TRUSTS (8) OILS (7) OVERSEAS TRADERS (1) THIRD MARKET (1).

NEW LOWS (14).
FOODS (1) Clifford "A" N/V, INDUSTRIALS (4) Alexandra (W), Harris (Ph), Intereuropa, Wills Group, NEWSPAPERS (1) Accord Pub., SOUTH AFRICANS (1) OK Bazaars, OILS (1) Energy Capital. MINES (6) Elandsrand Gold, Elsburg, Libanon, Loraine, Unisel, McFinley Red Lake.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA Group	1,300	Enterprise Oil	258	Prudential	1,600
Allied-Lyons	2,700	Fisons	1,000	Racal	3,000
Amstrad	915	General Accident	674	Rank Org.	310
Argyll Group	3,600	General Elect.	9,700	RMC	219
Assoc. Brit. Foods	302	Glaxo	591	RHM	171
BAA	5,200	Globe Investment	[illegible]	[illegible]	[illegible]
BAT	3,600	Granada	[illegible]	[illegible]	[illegible]
BET	1,800	Grand Met	[illegible]	[illegible]	[illegible]
BICC	736	GUS "A"	[illegible]	[illegible]	[illegible]
BOC	2,700	Guardian R.E.	[illegible]	[illegible]	[illegible]
BPB Inds	585	GKN	[illegible]	[illegible]	[illegible]
BTR	1,400	Guinness	[illegible]	[illegible]	[illegible]
Barclays	2,300	Hammerson	[illegible]	[illegible]	[illegible]
Bass	667	Hanson	[illegible]	[illegible]	[illegible]
Beecham	1,000	Hawker Siddeley	[illegible]	[illegible]	[illegible]
Blue Arrow	1,900	Hillsdown Holdings	[illegible]	[illegible]	[illegible]
Blue Circle	932	IMI	[illegible]	[illegible]	[illegible]
Boots	915	ICI	[illegible]	[illegible]	[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	50	35	29
Corporations, Dominion and Foreign Bonds	5	5	38
Industrials	432	362	778
Financial and Properties	177	100	379
Oils	35	22	54
Plantations	0	6	8
Mines	44	39	121
Others	106	34	98
Totals	852	597	1502

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section — Tuesday April 12 1988

	Equity groups & sub-sections	Index No.
1	CAPITAL GOODS (207)	756.54
2	Building Materials (29)	1028.20
3	Contracting, Construction (34)	1580.49
4	Electricals (12)	1993.40
5	Electronics (32)	1499.51
6	Mechanical Engineering (56)	394.14
8	Metals and Metal Forming (7)	454.53
9	Motors (13)	275.71
10	Other Industrial Materials (24)	1267.99
21	CONSUMER GROUP (188)	1055.11
22	Brewers and Distillers (21)	1876.83
25	Food Manufacturing (23)	859.66
26	Food Retailing (16)	2162.95
27	Health and Household (12)	1831.04
29	Leisure (30)	1285.75
31	Packaging & Paper (17)	485.86
32	Publishing & Printing (16)	3395.45
34	Stores (35)	831.80
35	Textiles (18)	574.85
40	OTHER GROUPS (93)	883.48
41	Agencies (19)	1183.25
42	Chemicals (20)	1011.86
43	Conglomerates (14)	1174.67
45	Shipping and Transport (12)	1916.64
47	Telephone Networks (2)	967.55
48	Miscellaneous (26)	1152.83
49	INDUSTRIAL GROUP (488)	941.75
51	Oil & Gas (12)	1666.14
59	500 SHARE INDEX (500)	1019.15
61	FINANCIAL GROUP (122)	664.38
62	Banks (8)	623.21
65	Insurance (Life) (8)	770.74
66	Insurance (Composite) (7)	539.28
67	Insurance (Brokers) (7)	862.08
68	Merchant Banks (11)	338.97
69	Property (51)	1133.99
70	Other Financial (30)	394.26
71	Investment Trusts (82)	873.46
81	Mining Finance (2)	444.12
91	Overseas Traders (8)	1019.66
99	ALL-SHARE INDEX (714)	925.16
	FT-SE 100 SHARE INDEX ♦	1805.3

Columns also printed: Day's Change %; Est. Earnings Yield% (Max.); Gross Div. Yield% (Act at 25%); Est. P/E Ratio (Net); xd adj. 1988 to date; Mon Apr 11 Index No.; Fri Apr 8 Index No.; Thu Apr 7 Index No.; Year ago (approx) Index No. — [illegible]

FIXED INTEREST

	PRICE INDICES	Tue Apr 12	Day's change %	Mon Apr 11	xd adj. today	xd adj. 1988 to date
	British Government					
1	5 years	123.85	+0.01	123.84	-	3.75
2	5-15 years	142.85	+0.05	143.02	0.24	3.67
3	Over 15 years	151.62	+0.17	151.36	-	4.62
4	Irredeemables	171.24	+0.15	170.99	-	3.94
5	All stocks	139.05	+0.06	139.10	0.13	3.82
	Index-Linked					
6	5 years	126.50	+0.07	126.42	-	0.51
7	Over 5 years	120.36	+0.12	120.22	-	0.88
8	All stocks	120.69	+0.11	120.55	-	0.85
9	Debentures & Loans	120.74	+0.04	120.70	-	2.67
10	Preference	89.49	+0.79	88.79	-	1.90

AVERAGE GROSS REDEMPTION YIELDS (Tue Apr 12; Mon Apr 11; Year ago (approx.)) — [illegible]

♦Opening index 1813.2; 10 am 1818.5; 11 am 1816.0; Noon 1814.4; 1 pm 1814.5; 2 pm 1814.6; 3 pm 1811.7; 3.30 pm 1811.2; 4 pm 1801.6

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p. CONSTITUENT CHANGES: Kennedy Brookes (29) has been deleted and replaced by UK Paper (31).

LONDON TRADED OPTIONS

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct
Allied Lyons (*394)	360	37	48	57	2	10	17
	390	13	28	40	9	23	28
	420	3	14	-	28	37	-
Brit. Airways (*169)	160	10	16	20	1	11	13
	180	1	7	12	13	21	24
	200	½	3	-	33	36	-

[illegible]

April 12 Total Contracts 20,316 Calls 14,399 Puts 5,977
FT-SE Index Calls 923 Puts 1654
*Underlying security price.

LONDON RECENT ISSUES

EQUITIES — [illegible]

FIXED INTEREST STOCKS — [illegible]

"RIGHTS" OFFERS — [illegible]

WORLD STOCK MARKETS

CANADA

TORONTO
Prices at 2.30pm April 13

MONTREAL
Closing prices April 11

Sales	Stock	High	Low	Close	Chng
52254	Bank Mont	$26⅝	26⅜	26½	−⅛
2100	BombrdrA	$09¾	09½	09⅝	
111190	BombrdrB	$09¾	09⅝	09⅝	
12100	CB Pak	$22⅝	22⅜	22⅝	+¼
6660	Cascades	$06⅝	06½	06⅝	+⅛
3669	DomTxtA	$16	15¾	16	
2600	MntTrst	$14½	14¼	14½	+⅛
107699	NatBk Cda	$10½	10¼	10½	+⅛
13445	Noverco	$11½	11¼	11⅜	
28560	Power Corp	$14	13¾	13⅞	
32554	Provigo	$10½	10⅜	10⅜	−⅛
61899	Royal Bank	$28¾	28½	28⅝	
12486	SteinbrgA	$43½	41¼	42¼	−1½
1260	Videotron	$10⅛	10	10	−¼

Total Sales 4,944,383 shares

OVER-THE-COUNTER *Nasdaq national market, 2.30pm prices*

Continued from Page 45

INDICES

NEW YORK — DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

CHIEF LONDON PRICE CHANGES YESTERDAY
(Prices in pence unless otherwise indicated)

RISES		
A.B. Electronic	428	+ 11
Brent Walker	384	+ 9
Burmah	522	+ 8
CAP Group	298	+ 7
Cannon St. Invs.	285	+ 11
Christies Intl.	561	+ 8
Lex Service	383	+ 23
Pearl	447	+ 9
Perry Group	215	+ 13
RMC	483	+ 10
Sharp & Law	175	+ 7
Triangle Trust	123	+ 10
WCRS	237	+ 11
Wardle Storeys	615	+ 15
Wood (A.)	165	+ 7

FALLS		
Accord Publications	155	10
Atlantic Computers	383	10
Logica	269	− 11
Ward White	330	− 10

TOKYO - Most Active Stocks
Tuesday, April 12, 1988

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Heavy Industries	61.04m	749	-11
Nippon Steel	54.54m	484	-10
Hitachi Ltd	30.17m	1,520	+40
Sanyo Electric	19.98m	591	-3
Mitsui Engineering	19.53m	308	+1
Matsushita Electric Ind	19.33m	2,880	+60
Mitsubishi Electric	18.13m	773	+7
Sumitomo Metal	17.41m	396	-13
Toshiba	17.35m	835	-2
Oki Electric	14.34m	906	+30

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR s	.36	1.5	20	133	24½	24	24½	+⅛
27	10½	AGS s			14	212	16⅝	16⅛	16⅝	+¼
10½	4⅜	AMCA				34	4¾	4⅝	4¾	
8⅝	3¼	AM Intl				594	4⅛	4	4	
65½	26¾	AMR			13	4953	42¾	42	42⅝	+⅞
27¼	24⅞	ANR pf 2.67		10.		5	26½	26½	26½	+¼
12¼	6⅜	ARX			9	24	8⅞	8⅝	8⅞	+⅛
73½	40⅛	ASA	3	6.6		328	45⅝	44¾	45¼	+¼
22⅝	9½	AVX			15	34	17½	17⅛	17½	
66⅝	40	AbtLab 1.20		2.4	17	5963	50⅝	49⅞	50⅝	+¼
28	15⅝	Abitibi g 1				91	18½	18⅛	18½	
16¾	8½	AcmeC .40		3.1		38	13⅛	12⅞	12⅞	−¼
10½	6¾	AcmeE .32b		4.3	20	11	7½	7⅜	7½	+¼
20	14⅛	AdaEx 2.93e		18.		64	16	15¾	16	+⅛
19¼	6⅞	AdamMl .04		1.8	11	676	13¾	13½	13½	−⅛
24⅞	7½	AMD				11979	14	13⅝	13⅝	−⅛
56¾	29¼	AMD pf 3		7.7		27	39⅝	39	39⅛	+¼
11⅞	4⅜	Adobe			13	113	7½	7⅜	7½	+⅛
20¼	16¼	Adob pf 1.84		10.		5	18	18	18	
21¾	17½	Adob pf 2.40		11.		100	21	21	21	+⅛
15	6⅛	Advest .12a		1.6	7	69	7⅜	7⅛	7⅜	+⅛
64¼	42⅞	AetnLf 2.76		6.1	6	2297	45½	44⅝	45½	+1
63½	41	AflPub .40		.6	30	390	68½	67½	68½	+½
23¾	13	Ahmans .88		5.7	8	1013	15¾	15½	15½	−¼
4⅞	1¾	Aileen				103	2⅞	2¾	2⅞	
53⅞	29	AirPrd 1		2.0	16	1329	49⅝	48½	48⅞	+¼
36	11⅛	AirbFrt .60		3.5	19	32	17¼	17⅛	17⅛	−¼

Continued on Page 45

NYSE COMPOSITE CLOSING PRICES

Continued from Page 44

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Prev. Close Chng
85	50	Xerox	3	5.4	10	1572	55¾	54⅞	55⅜	+⅛
50¾	48⅞	Xerox pf	4.13	8.3		10	49½	49½	49½	
34⅝	19⅛	XTRA	.64	1.8	17	290	u34⅞	34	34⅝	+1¼
29½	18½	XTRA pf	1.94	6.7		185	29	29	29	+¼
45¼	17½	Yorkin			15	1350	45	43½	43⅝	−1⅛
7¼	2¼	Zapata				1537	3½	3¼	3½	+⅛
37	13½	Zayre	.40	1.6	12	11438	24⅝	23⅝	24⅝	+¾
16⅛	8¾	Zemex	.40	2.9	18	77	14⅛	13⅞	13⅞	−½
33⅝	10	ZenithE				1228	20½	19⅞	20¼	−¼
12	2⅝	ZenLab				583	2½	2⅜	2½	−⅛
24	13½	ZenNtl	.80	4.2	9	36	19½	19¼	19¼	
20⅝	11⅝	Zero	.36	2.5	15	320	14⅝	14¼	14¼	−¼
30¾	15	Zurnin s	.68	3.0	15	179	22⅝	22¼	22½	+⅛
10⅝	7⅝	Zweig	1.34e	13.		1094	10¼	10	10⅛	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

OVER-THE-COUNTER

Nasdaq national market, 2.30pm prices

Continued on Page 43

AMERICA

Dow holds around 2,100 level as investors hang back

Wall Street

THE EQUITY market still lacked the momentum to breach convincingly the 2,100 level on the Dow Jones Industrial Average yesterday on Wall Street. This has proved to be a formidable resistance level, *writes Janet Bush in New York.*

At noon yesterday, the Dow index stood at 2,101.63. By 2pm, the Dow registered a gain of 2.32 points to stand at 2,098.31. Volume was modest with about 80m shares changing hands by midsession.

The US Treasury bond market was similarly uneventful. By midsession, prices were mixed across the maturities spectrum. The Treasury's benchmark long bond was quoted 1/32 of a point lower to yield 8.775 per cent.

Activity was light as markets took a cautious stance prior to today's meeting of the Group of Seven leading industrial nations in Washington and pending tomorrow's release of the latest US trade figures. Forecasts are generally looking for a narrower deficit than the $12.4bn in January. Estimates suggest a deficit in February of just over $11bn.

The dollar was stable on foreign exchanges, holding in the middle of a narrow range. But both equity and bond markets remained nervous. They were worried about oil prices, as the Organisation of Petroleum Exporting Countries formally invited eight non-Opec producers to a meeting in Vienna on April 23 which will explore ways to bolster prices. At midsession, crude oil prices had built on Monday's gains, with May crude quoted 11 cents higher at $18 a barrel.

The bond market had to face an auction of seven-year notes with expectations of very weak demand before important news later this week.

Equities share some of the worries about inflation, interest rates, the trade balance and the dollar that are weighing down bonds. Moreover, they have the additional problem of their strong rally last week with little profit-taking punctuating the string of five daily gains. There is some nervousness about the ability of the market to sustain current post-crash highs and this is keeping sentiment cautious.

There were a number of quarterly results. Coca-Cola added $⅜ to $39⅝ after reporting first quarter net income of 57 cents a share compared with 49 cents a year earlier. The company said it expected growth in 1988 as a whole to mirror that of the first three months of the year.

Damon was unchanged at $27⅞ after releasing net earnings of 14 cents a share in its second quarter ended February 29 compared with 7 cents a year earlier.

Marriott rose $⅛ to $31¾. The company said it had made first quarter earnings of 36 cents a share against 30 cents.

Takeover stocks remained in the limelight. J P Stevens added $2 to $68⅞ as the bid battle to take over the company heated up. Odyssey Partners has raised its offer to $68.50 a share in response to a higher $67 a share bid from West Point-Pepperell.

Griffin said it intended to launch a tender offer as an alternative to its $36 a share bid for Resorts International, a strategy intended to put more pressure on Resorts' independent directors. The company added $1⅛ to $38⅞.

PS Group rose $⅝ to $31, after saying it planned to end the company retirement plan which would help it to achieve earnings of $8.32 a share in 1988.

Westinghouse Electric rose $⅝ to $55⅞ after announcing it had reached an understanding with Asea Brown Boveri, owned by Swedish and Swiss parents, in which the two companies would establish joint ventures for the manufacture and sale of power generators and transmission and distribution equipment.

Georgia Gulf, the integrated chemicals producer, slipped $⅝ to $66⅞ on news that it planned to expand capacity at seven of its manufacturing plants by as much as 20 per cent. The expansion is scheduled to be completed by early 1989 at a cost of under $18m.

Canada

GAINS in the energy sector outweighed lower golds to leave Toronto share prices slightly higher at midsession, with the composite index up 5.31 at 3,389.71 in moderate volume.

Polysar Energy was one of the most active stocks, recovering C$1⅛ to C$17 after its C$4⅞ fall last week of a C$1.17bn takeover offer by Nova, steady at C$11⅞.

Haig Simonian explains why investors have German stores on their shopping list

Retailers find wares and shares in demand

AFTER a good year in 1987, West Germany's retailing sector looks set to continue outperforming the market thanks to rising private consumption and the prospect of income tax cuts ahead.

Following a brief setback in January, the sector was up 20.7 per cent in February and 6.5 per cent in March against a market rise of 15.6 per cent and a fall of 1.3 per cent in those two months respectively, according to the FT-Actuaries World Indices. The sector accounts for just under 4 per cent of the German market capitalisation.

Recent figures showing retail sales rising by 6.3 per cent in real terms in February have given new impetus to the sector. Turnover in retailing is likely to rise by a real 2.5 per cent for 1988 as a whole, according to forecasts by Trinkaus & Burkhardt, much the same as in 1987 and comfortably ahead of German growth in general.

The fruits of diversification and restructuring remain the other forces behind the rise in retail shares. Most leading retail chains are now benefiting from re-organisation, which has often involved hiving off individual lines into new free-standing operations.

Kaufhof, Germany's second biggest department store group, is the most striking example. Its Saturn Hansa consumer electricals subsidiary is expanding fast thanks to rising sales of compact discs, records and the machinery to play them. Likewise its Reno shoe retailing offshoot has done well, and now plans to expand abroad.

Kaufhof's share price has recovered from the January downturn but is still 6 per cent below its level at the start of the year.

Karstadt, the biggest chain store group, has experienced the sharpest recovery, which should be confirmed in its results for 1987. Its shares have climbed 6 per cent this year.

The travel boom has lately provided an extra boost for those retailers with their own travel subsidiaries. Already the world's biggest tourists, Germans are expected to travel more widely than ever in future, with growth forecasts of up to 20 per cent.

Companies like Kaufhof and Karstadt, which respectively own ITS and NUR, the country's second biggest travel agency, and – to a lesser extent – Horten, which has a stake in TUI, have gained accordingly. Horten is up 14 per cent.

Some smaller or less obvious retailing names have also advanced recently. Co-op's partial flotation could hardly have seemed worse timed last October. But, despite its continuing predominance in the more stolid food sector, its shares have surged from around DM190 at the beginning of the year to DM280 now.

AVA, a discount store chain similar to, but smaller than, the better-known Asko group (up 23 per cent this year), also looks promising, say analysts. And shares in Leffers, a small textile retailing chain, have climbed from around DM200 to about DM300 in the past three months.

Rising prices have, however, led to calls for caution among some analysts. Co-op's current price/earnings ratio of 23 looks too high considering it is still largely a food group.

Kaufhof has a PE of about 25, based on its current price of DM490 and earnings per share forecasts of around DM16. Nevertheless, it is still probably the most interesting retailing share owing to the continuing speculation about the possibility of Metro, which now has a stake over 50 per cent, raising its holding to 75 per cent.

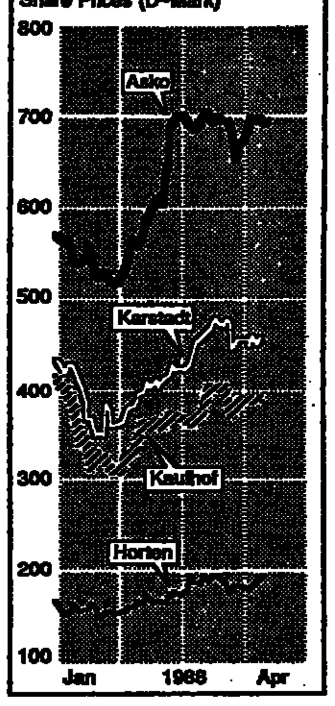
Limited liquidity in some retailing shares helps to explain the current high prices. Apart from Metro's stake in Kaufhof, Union Bank of Switzerland holds over 17 per cent.

Likewise at Karstadt, both Deutsche Bank and Commerzbank each own over a quarter of the equity, while the Opel family also has a substantial holding.

Meanwhile, Hagen-based Hussel, a retail holding company which owns drug, perfume, sports and sweets chains among others, is particularly popular in the UK, despite the fact that it owns relatively little of its property, unlike other retail groups.

The prospect of a dividend increase for 1987 – which may be postponed to 1988 in view of the increase in its share capital last year – makes it appear attractive even at an estimated PE of 19.

West German Retailers
Share Prices (D-Mark)



ASIA

High-tech issues spur Nikkei on to another peak

Tokyo

HIGH-TECHNOLOGY stocks rallied in late trading after an uneventful session, helping the Nikkei average reach another high in Tokyo yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

Large-capital stocks and domestic demand-related issues saw lacklustre trading amid growing concern over precariously high price levels.

The Nikkei average closed 5.97 higher at 26,930.84, after ranging from 26,845.02 to 26,985.74. Volume fell further from Monday's 916m shares to 828m. Declines led advances by 462 to 407, with 173 issues unchanged.

Firm New York stock prices and demand for the dollar after Monday's announcement that Japan's trade surplus for fiscal 1987 had fallen for the first time in eight years had little effect.

The principal reason for the slow buying was investor nervousness over the movement of the Nikkei towards the unknown waters at the 27,000 level. Market analysts said giant-capital issues, which had contributed to much of the rapid price rise, seemed to have hit a ceiling. Investors were also wary of possible inflation linked to a crude oil price rise.

Large-capitalisation stocks lost ground under small-lot selling pressure. Mitsubishi Heavy Industries – the most active issue of the day on a relatively low volume of 51m shares – lost Y11 to Y749. Nippon Steel, the second busiest with 54.5m shares traded, dropped Y10 to Y484.

There were gains, however, for leading high-tech stocks, which staged a rally in the afternoon. Matsushita Electric Industrial led, rising Y60 to a record high of Y2,880 on the sixth heaviest trading of 19.3m shares.

Hitachi gained Y40 to Y1,520 and NEC Y50 to Y2,270. Sony added Y170 to Y5,650 and OKI Electric, which was reported to have won a large order for digital telephone systems from a British company, rose Y30 to Y906.

Honda Motor gained Y60 to reach an all-time high of Y1,880 on a newspaper report that the company would score a record Y90bn recurring profit for the year ending March 1989.

Nippon Telegraph and Telephone, which had soared on Monday, came under selling pressure, turning down Y40,000 to Y2.43m.

Bond prices fell steeply as dealers sold after the crude oil price rise. The yield on the 5.0 per cent government bond due in December 1997 rose to 4.310 per cent from Monday's 4.220 per cent at one stage, but small buying pushed it back to 4.285 per cent as the yen stopped falling against the dollar at the Y126 level.

Prices on the Osaka Securities Exchange continued to rise moderately as buying of high-tech equities increased toward the close. The OSE stock average added 22.18 to 26,817.53 on turnover totalling 94.8m shares, down 45.8m. Murata Manufacturing went up Y110 to Y3,230.

Australia

DOWNWARD pressure resulting from profit-taking left the All Ordinaries index 5.8 lower at a close of 1,447.9.

Media and entrepreneurial stocks suffered the heaviest falls. News Corp lost 25 cents to A$14.20, Bond Media lost 2 cents to 56 cents and Qintex was steady at A$4.50.

Energy stocks ended mostly higher on oil price news. Santos rose 20 cents to A$4.50 and Vamgas 10 cents to A$3.

Hong Kong

SPORADIC profit-taking and selective speculative buying left the market mixed, with the Straits Times Industrial index easing 0.37 to 946.11.

Two block deals of 1.8m shares boosted trade in Straits Steamship, which rose 1 cent to S$1.25.

Singapore

EARLY gains were reduced by light profit-taking as the market consolidated after recent rises.

The Hang Seng index ended near the day's lows at 2,635.94, off 15.07. Several blue chips were trading ex-dividend, including Hongkong Land, which rose to HK$8.20 from the adjusted previous close of HK$8.08.

EUROPE

Profit-taking leaves prices mixed

PROFIT-TAKERS appeared around Europe yesterday, taking advantage of recent good rises, and markets ended mixed overall. Corporate news took over from the dollar and Wall Street as the main source of movement, *writes Our Markets Staff.*

FRANKFURT closed mixed after some profit-taking with retail stocks providing the main excitement in the market, helped by good figures for domestic demand.

The Commerzbank index rose 16.6 to 1,423.8 on a day described as "adequate" by one salesman. "The market is generally favouring those areas where we're still seeing good economic growth and good fundamentals," he said.

That included retailers and chemicals, although both sectors saw some profit-taking.

In retailers, Karstadt rose DM5 to close at DM468, after hitting a high for the day of DM472. Asko added DM5 to DM702, Horten DM1 to DM193 and Kaufhof 50 pfg to DM398.50.

Chemical issues BASF and Hoechst eased on profit-taking after recent gains, closing 50 pfg and DM1.70 lower at DM252 and DM263.20 respectively.

Commerzbank was hit by fears that its dividend cover was low and eased DM2.30 to DM239 pending further details today of its 1987 earnings. Metals group Preussag rose DM3 to DM157 on news of co-operation talks with French mining company Penarroya.

Bonds were about 10 pfg lower, with the 6¼ per cent 1998 bond yield at 6.23 per cent, after 6.21 per cent on Monday.

MILAN saw active trading in Olivetti and Ferruzzi-Montedison stocks but closed mixed after profit-taking reduced early gains.

The BCI index added 1.06 to 527.43 before the close of the April trading account today.

News that AT&T of the US would not increase its stake in Olivetti – and speculation about the next move of chairman Mr Carlo De Benedetti – helped push the Italian telecommunications company up L454, or 4.1 per cent, to L11,505, although it fell back in after hours trading.

Montedison rose L15 to L1,580 after reports that Dow Chemical of the US had acquired a stake as high as 5 per cent in it. It had reached L1,660 in after-hours trading on Monday.

The market was full of rumours about possible restructurings and disposals at Montedison. Ferruzzi, which owns 42 per cent of Montedison, gained L75, or 5.5 per cent, to L1,450.

PARIS opened mixed amid light profit-taking, fell in midsession after news of a sharp widening in the country's trade deficit, and then ended slightly higher as good corporate news moved through the market.

Publisher Hachette ended FFr80 higher at FFr1,780 after Grolier accepted its $400m merger bid. SAT, which announced plans to co-operate with Siemens of West Germany in developing cellular telephones, put on FFr29, or 5.6 per cent, to FFr543.

Chargeurs was suspended before announcing a share deal involving textile company Prouvost.

The opening CAC General index was 2.4 higher at 296.

BRUSSELS closed virtually unchanged amid continued caution before tomorrow's meeting of shareholders in Société Générale de Belgique, which has interests in almost every sector of the economy.

The Brussels stock index edged up 0.35 to 4,714.73 and La Générale, in which trading has dried up, added BFr45 to BFr4,620.

Investment holding company Sofina, 27 per cent owned by La Générale, added BFr100 to BFr12,550 after reporting that it would increase its dividend in spite of a 35 per cent fall in annual net profits.

ZURICH seemed to ignore the firm dollar and Wall Street's optimism, with share prices closing almost unchanged. The Crédit Suisse index rose 0.8 to 451.6.

Shares in Brown Boveri und Cie, the engineering group which jointly owns ABB Asea Brown Boveri with Sweden's Asea, were suspended at its request. Later, ABB Asea Brown Boveri announced it was forming a US power transmission unit with Westinghouse Electric of the US.

Ciba-Geigy bearers lost SFr15 to SFr2,835. A fire at one of the company's plants caused SFr9m worth of damage on Monday.

Maag Zahnraeder, the machinery maker, gained SFr70 to SFr1,620 after announcing it would cut 500 of the 980 jobs at its Zurich plant over three years. It also said machinery maker Oerlikon Bührle, down SFr5 at SFr905, would take over its gear-planing division.

STOCKHOLM gained after the suspension of Asea and Brown Boveri shares, pending news of the joint venture between ABB Asea Brown Boveri and Westinghouse.

The Affaersvaerlden index reached another post-crash peak, rising 2.6 to 823.2, in active trading with relatively high turnover.

MADRID reached another year's high, boosted by currency gains, although rises were kept in check by profit-taking. The general index rose 2.91 to 280.32.

London

NERVOUS trading followed uncertainty in currency markets and the FT-SE 100 index eased 5.2 to 1,805.3.

Rumours of another impending rights issue in the London market hit prices towards the close.

International stocks traded sluggishly, with Glaxo uneasy pending a presentation to market analysts.

SOUTH AFRICA

THE firmer bullion price had little effect on Johannesburg gold stocks which drifted lower on profit-taking as investors awaited a new lead from the Group of Seven meeting starting today and tomorrow's US trade figures.

A slightly firmer financial rand helped keep prices subdued. Golds saw Vaal Reefs off R3 at R262, Harties shedding 50 cents to R21.25 and Driefontein off 25

Mining house Anglo American eased 25 cents to R48.75 and diamond stock De Beers saw a similar fall to R31.50.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY APRIL 11 1988					FRIDAY APRIL 8 1988			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1988 High	1988 Low	Year ago (approx)
Australia (89)	120.72	+3.1	96.54	107.75	4.01	117.15	92.58	105.11	120.72	91.16	133.90
Austria (16)	91.78	+0.1	73.39	80.36	2.61	91.70	72.47	79.73	98.18	84.35	93.54
Belgium (65)	127.34	−0.8	101.83	110.69	4.47	128.36	101.44	111.43	139.89	99.14	120.40
Canada (126)	124.34	+0.8	99.43	111.65	2.95	123.40	97.52	111.51	124.34	107.06	133.71
Denmark (39)	122.73	−0.2	98.14	107.70	2.65	122.97	97.18	107.21	122.97	111.42	113.49
Finland (25)	127.56	+0.1	102.00	108.10	1.92	127.49	100.75	107.32	127.56	106.78	—
France (121)	84.38	+1.5	67.48	75.65	4.26	83.11	65.68	73.95	88.72	72.77	117.59
West Germany (99)	78.63	+0.0	62.88	68.94	2.66	78.61	62.12	68.35	80.79	67.78	91.17
Hong Kong (47)	104.39	+1.1	83.48	104.68	4.30	103.28	81.62	103.54	104.39	84.90	107.10
Ireland (18)	122.16	+0.4	97.69	108.46	4.09	121.69	96.17	107.41	122.83	104.60	118.27
Italy (102)	78.93	−0.7	63.12	73.72	2.54	79.46	62.79	73.58	81.74	62.99	104.76
Japan (457)	172.38	−0.4	137.85	137.90	0.52	173.08	136.78	137.31	173.08	133.61	145.05
Malaysia (36)	126.05	+0.4	100.80	125.37	2.80	125.55	99.22	124.49	126.05	107.83	143.99
Mexico (14)	138.42	−0.5	110.69	344.31	1.03	139.08	109.91	345.94	176.90	90.07	6.00
Netherland (38)	110.66	+0.7	88.49	95.59	4.78	109.87	86.83	94.12	110.66	95.23	115.82
New Zealand (22)	76.90	+0.6	61.49	61.95	5.58	76.43	60.40	61.86	79.15	64.42	96.32
Norway (25)	129.29	+2.3	103.39	110.20	2.69	126.40	99.89	107.35	129.29	98.55	131.74
Singapore (26)	109.29	−0.2	87.39	101.16	2.43	109.54	86.57	101.09	114.93	97.99	121.85
South Africa (60)	124.74	−3.4	99.75	83.91	5.07	129.18	102.09	83.67	139.07	118.16	183.46
Spain (42)	152.48	+0.2	121.93	128.91	3.31	152.18	120.26	127.80	153.85	130.73	115.85
Sweden (38)	122.55	+0.6	98.00	107.63	2.62	121.87	96.31	106.62	122.55	96.92	115.49
Switzerland (56)	81.46	−0.1	65.14	70.50	2.43	81.56	64.46	69.91	86.75	76.22	97.19
United Kingdom (330)	138.49	+0.3	110.75	110.75	4.28	138.03	109.08	109.08	140.79	123.09	126.20
USA (584)	109.95	+0.3	87.92	109.95	3.44	109.68	86.68	109.68	110.51	99.19	117.26
Europe (1014)	109.25	+0.3	87.36	92.13	3.77	108.94	86.10	91.00	110.53	97.01	112.82
Pacific Basin (677)	167.62	−0.3	134.04	135.28	0.69	168.10	132.85	134.61	168.10	130.81	143.20
Euro-Pacific (1691)	144.29	−0.1	115.38	118.14	1.64	144.45	114.16	117.29	144.45	120.36	131.08
North America (710)	110.72	+0.3	88.54	110.07	3.41	110.41	87.25	109.81	111.07	99.78	118.13
Europe Ex. UK (684)	91.11	+0.2	72.86	80.46	3.31	90.90	71.84	79.67	92.44	80.27	104.56
Pacific Ex. Japan (220)	110.22	+2.0	88.14	101.76	4.09	108.06	85.40	100.04	110.22	87.51	120.51
World Ex. US (1891)	143.40	−0.1	114.67	117.68	1.71	143.57	113.46	116.86	143.57	120.26	131.75
World Ex. UK (2145)	129.70	+0.0	103.72	115.45	2.05	129.75	102.54	114.93	129.75	111.77	126.09
World Ex. So. Af. (2415)	130.50	+0.0	104.36	115.21	2.25	130.47	103.11	114.57	130.50	113.26	125.72
World Ex. Japan (2018)	110.36	+0.3	88.25	103.20	3.58	110.02	86.95	102.53	110.99	100.00	117.08
The World Index (2475)	130.47	+0.0	104.33	114.99	2.26	130.47	103.11	114.36	130.47	113.37	126.09

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

Latest prices were unavailable for this edition.

SECTION III

FINANCIAL TIMES SURVEY

European High Technology

Questions about the further commercial exploitation of joint research work and the creation of a genuine open market in the European community are central issues in current discussions about the future of Europe's high technology industries, says Terry Dodsworth, Industrial Editor

Battling for world markets

THE BRUSSELS conference over the future of the pan-European Esprit information technology research programme last year was marked by two points in particular. One was the discussion of the way in which research is exploited commercially in Europe. The other was the emphasis put on 1992, the year nominated by the European Community for the creation of a genuinely open market in the region.

Neither of these preoccupations is, of course, entirely new. But a succession of politicians, Eurocrats and top businessmen at the meeting made it overwhelmingly clear that they are points which have swung right into the centre of their short-term horizons. They are both questions which place an emphasis on the market, on competition, and, above all, on the ability of the corporate sector to match up to the challenge of coping with a constant stream of new technology.

None of this means that Europeans have suddenly lost interest in the collaborative research programmes which sprang into being in the early 1980s. Indeed, the concept of joint research, an idea that was born out of the response to the growing perception of a technology gap with Europe's main industrial competitors, is still regarded as crucial.

What has changed is the feeling about the nature of this research. Europe's decision-makers are increasingly arguing that the region's greatest weakness lies less in research itself than in the ability of its companies to bring new products to market.

Mr Jacques Stern, head of the French Bull computer group, put this point forcibly in a speech in which he called for a product-oriented approach to European collaborative projects. The region, he said, ought to put funds in a more concentrated fashion into a few key areas of technology, such as microprocessors, where overseas competitors had established a big lead.

The question of European market size was raised particularly by Mr Cor van der Klugt, president of Philips of the Netherlands, Europe's largest electronics group. He echoed the sentiments of many industrialists who believe that nationalistic industrial policies have hindered the development of strong, world-class companies in Europe.

On both of these points, however, it is important to stress that the main concern is coming from companies in the electronics field. Any balance sheet of those industries in which new technology is the main driver of growth would show a number of areas where Europe has developed companies which are strong in research, and which sell competitive products aggressively throughout the world.

Among these are:

■ The aerospace industry, where the collaboratively-organised Airbus consortium has created a genuine counter-force to the dominance of the US civil aircraft manufacturing companies.

■ Defence electronics, an area in which European companies are heavy exporters of equipment which now permeates weapon systems.

■ Factory automation, a fast-developing European industry that has benefited greatly from the strength of West Germany as a manufacturing base to both supply and use the equipment.

■ Materials technology, which has been developed particularly by companies in the aerospace field.

■ Chemicals, pharmaceuticals and biotechnology, related activities where Europe has maintained a strong position in chemicals technology, and, led by the UK, expanded aggressively in pharmaceuticals.

■ Nuclear energy, an area of well-established of pan-European co-operation in research on fast reactor technology, where the region is on a par with the two other world leaders, Japan and the Soviet Union.

■ Software, an industry in which European innovationhas created a myriad of small entrepreneurial companies which are now beginning to coalesce into larger groupings.

Europe's relative weakness in most electronics-based industries looks less threatening when viewed alongside the region's competitiveness in these other sectors. Nevertheless, these inadequacies are important because of the way in which electronics technology is becoming increasingly pervasive in a broad range of products – European industry has been consigned to the sidelines, for example, in both consumer electronics and computers, dominated respectively by Japanese and American companies.

Europe began to view these weaknesses with growing alarm in the early 1980s for various reasons – partly because of fears of growing dependence on overseas suppliers for key components, partly because of American boycotts on the export of some products, and partly because of the increasing imbalance in electronic goods. In 1986, for example, the leading West European countries inside and outside the EC imported $83bn worth of electronic goods and exported only $69bn, according to figures produced by Benn Electronics, the market research group.

Various explantions have been advanced for this lack of competitiveness, ranging from the dearth of venture capital in the region, to the high cost of funds in some countries, and the protectionist policies which have tended to feature heavily in some parts of electronic equipment supply. At present, the argument is centred on the issue of product development. European companies have failed consistently over the last few years to catch onto fast-developing new markets as quickly as their overseas competitors, whether these are in consumer areas such as video cassette players, or professional equipment such as computer workstations.

It is for these reasons that industrialists such as Mr Stern and Mr van der Klugt have begun to put increasing emphasis on market issues in collaborative European programmes. The dismantling of trade barriers in 1992, it is argued, will act as a stimulus to demand and allow companies to organise themselves more rationally for what will effectively be a large domestic market. At the same time, supply could be re-invigorated by putting the emphasis on research projects which are considerably further down the road to the introduction of new products than in the past.

There is plenty of scepticism over the ability of European companies to respond to these various stimuli. Indeed, the problems of Europe-wide collaboration are being demonstrated currently in the disagreements over the next stage of the Megaproject research effort in semiconductor technology, where the original partners, Siemens and Philips, are having tough negotiations over the inclusion of SGS-Thomson, the Italian-French group.

What is undoubtedly true, however, is that Europeans have begun to treat research and industrial development in much more concrete terms, increasingly trying to see how projects will contribute to the development of a more competitive industrial base in the region.

One example of this are the agreements on standards in the computer industry, where Europeans have taken the lead in establishing universal design and interconnection principles that will allow users to connect different brands of machines more easily together in networks. American companies are now being forced to respond to this initiative. Another example is in mobile telephones, where Europe has decided to adopt a common standard for transmission and equipment for digital systems, to be introduced in the early 1990s.

Finally, Esprit itself, the flagship in European collaborative research, is being pushed closer to the market through the several large-scale projects being designed to bring different technologies together.

These will probably not go as far as Mr Stern would like, for reasons of competition policy if nothing else. But the message that is coming from Brussels these days is that companies need not apply if they do not have some good ideas about how these programmes might be taken on into saleable products.

□ The illustration, above, by David Worth, includes the advanced Eurofighter; the European rocket, Ariane-3; the Airbus Industrie A-320; an advanced telecommunications centre in Spain; and a microchip scientist at Plessey in the UK.

□ IN THIS SURVEY:

European research investment

The debates intensify

THE GROWING number of joint research initiatives to have sprung up across Europe in recent years have one thing in common – an awareness that in too many technology sectors, European competitiveness is poor. But beyond that, the trend conceals a growing political debate over whether policy-makers are pinning too much hope on technology collaboration.

The driving force behind the multiplicity of collaborative efforts to have emerged at industrial, national and European Community level in the late 1980s is the fear of being left behind in the global technology race by the more competitive US and Japanese. As it is, the EC's 12-member governments individually will be spending around £320bn on research in the five years to 1991, a long way in per capita terms behind the £700bn planned by the US and Japan's £230bn.

European companies are failing to adapt fast enough to fast emerging new markets in sectors like telecommunications, artificial intelligence and biotechnology, the argument goes. This is either because they are too big and bureaucratic to innovate fast enough, or because they are to small to have the resources to compete in a world where the time gap between the laboratory and the marketplace is getting shorter by the day.

Most EC Governments and the European Commission fervently believe that companies must be encouraged to step over the national barriers that have encouraged a backward spirit of isolationism among most of them and form links to pool research efforts, even if they differ sharply on just how this should be achieved. At any rate, they agree that researchers should avoid wasteful duplication and be in a position to achieve economies of scale when their efforts come to the marketing and manufacturing stages.

Judging by the growing number of technology link-ups to have emerged in the past two years, those kinds of arguments have hit hard among the larger high technology companies themselves. They include, among others, the merger of the medical electronics interests of GEC of Britain and Philips of the Netherlands, the purchase of control by France's CGE of ITT's European telecommunications business, and the takeover by Olivetti the Italian electronics company, of Triumph-Adler, the West German office equipment group.

While those specific ventures were driven by mainly commercial rather than political forces, the EC feels it has a vital role to play in setting the right conditions to encourage more link-ups like these. The Brussels Commission is exerting its influence on technology collaboration on two fronts; its broad programme of measures to scrap market barriers by 1992 and central EC funding for the pooling of pre-competitive research efforts by companies in different member states. Both, however, have aroused national sensitivities.

The first, the internal market campaign, aims to break down the traditional protectionism that has all too often, according to the Commission's argument, stifled efficiency and innovation.

An example of Brussels' approach is its proposal to break down national monopolies in telecommunications terminal equipment. The proposal, currently bogged down in a row over the extent of the Commission's powers, would make it easier for producers to collaborate because it would give consumers freedom of choice and is part of a raft of plans for liberalising telecommunications.

Other internal market measures likely to remove barriers to technology collaboration include common rules for software copyright and for protection of microcircuit designs.

The fiercest arguments, however, have revolved around the question of how far the EC should go in funding joint research. Member states agreed last year to allocate nearly Ecu 6.5bn (£4.5bn) in the five years to the end of 1991, but only after a bitter 18-month long debate in which the Commission's original plans for a major boost in research spending, to Ecu 10.3bn for the period, were cut radically.

As it is, EC research spending will now coast along at much the same rate as before, just over Ecu 1bn annually. Most of that spending is earmarked to defray 50 per cent of the total cost of a transfrontier joint venture.

The UK stood out on the EC research budget – as in other areas of publicly funded research collaboration like the 13-nation European Space Agency, as the main sceptic – with the backing of France and West Germany. Their arguments fell into two parts – fears that the bureaucratic hand of the Commission might hamper innovation rather than encourage it, and a belief that throwing more money at a programme which had so far failed to produce startling results was not necessarily the way to improve performance. It is better, argues the UK, to concentrate on a broad industrial policy that sets the right conditions for innovation.

Their anxiety over Commission bureaucracy – an accusation which Brussels strongly denies – lay at the root of the formation in 1985 of French-inspired Eureka programme of high technology collaboration involving 18 countries. Originally intended partly as an answer to the US "star wars" strategic defence initiative, Eureka's emphasis has since become more general, even this cussed claim Commission officials, who maintain an uneasy relationship with a project which has so far failed to bring any spectacular results.

Eureka-funded projects tend to be nearer the marketplace than EC-backed ventures, the aim being to bridge the gap between pre-competitive research and commercial reality. Yet this strategy could provoke a clash with the Commission over Community rules strictly limiting state aid. It is another of the perennial dilemmas facing research collaboration and one which will inevitably touch Brussels' own research sponsorship as its beneficiaries move closer to the market place.

The flagship – and the largest – of the Commission's research projects is the Ecu 1.6bn Esprit II collaboration in information technology, embracing office automation system, computer integrated manufacturing, advanced information processing and software technology. Like Eureka, it is supposed to be closer to the market place than the Ecu 1.5bn first phase, which expires at the end of this year.

Esprit has been praised by many of the 500 companies involved for helping them to seek alliances across national borders in a way that would not have occurred easily before. Yet it has also been criticised by some of its smaller participants for being too heavily influenced by – and giving out a disproportionate amount of funds to – the 12 major electronic companies that helped the Commission create the project in 1984.

Among Esprit's achievements since then are the development of gallium arsenide chips for the next generation of supercomputers by a group including Thomson-CSF and LEP of France, Plessey of the UK and Siemens from West Germany; a world standard for mixed voice-text-image electronic documents, adopted in draft by the International Standards Organisation; and the so-called portable common tool environment, a programme that allows different software standards to be used together.

The second major plank in the Commission's joint research programme is the Ecu 550m Race project, covering advanced telecommunications.

It is intended to be the forum in which common EC standards are set for broadband communications – the telecommunications networks of the future, in which voice, data, text and pictures can be carried down one optical fibre channel.

Other collaborative programmes in Brussels' high technology portfolio include Brite, intended to promote the automation of basic industries, research into biotechnology, cures for Aids and cancer, marine technology and nuclear safety.

William Dawkins
Brussels

Collaboration

A change in attitudes

FEW APPROACHES to industrial development have gained as much momentum in Western Europe in recent years as the idea of collaboration. Co-operative ventures have become so fashionable in certain parts of the high technology sector that they are now the norm rather than the exception, seen virtually as an indicator of a company's determination to expand. They have affected almost every part of the Western European region.

This change in the intellectual climate comes after decades of scepticism over the wisdom of joint projects. It also co-incides paradoxically with a time when political attitudes have hardened in favour of intensifying the competitive pressure on companies.

In the past, Governments that have been enthusiastic about strengthening competition have tended to frown on co-operative activity as a restraint on market forces; yet today they are going along happily with the collaborative trend.

Collaboration has triumphed over these obstacles largely because it answers the particular needs of Europe at a difficult stage in the evolution of the region's industrial base.

On the one hand, Europeans see themselves as under threat from the twin trading powers of the US and Japan, both large, homogeneous regions with vigorous home markets that have bred strong international companies.

On the other, barriers to individual markets in Europe are evaporating under a variety of pressures, leaving nationally-based companies exposed to competition in a way that has not existed before. Industrial co-operation responds to these challenges in two ways.

First, from the point of view of Governments, persuading companies to work together is a step towards marshalling the economic muscle of the entire region to build a stronger industrial structure.

In the past, European Governments have been instrumental in fragmenting the regional market for high technology products through a variety of nationalistic procurement policies. Foreign companies have been excluded and local ones favoured with the aim of stimulating growth sectors with good employment prospects. But this attitude is gradually changing in the face of Europe's short-comings, particularly in electronics-based industries.

In order to fight back in these weak industrial sectors, member states within the European Community have thrown their weight particularly behind collaborative research programmes. To avoid the charge that they might be thus encouraging anti-competitive behaviour, they have confined these programmes to basic research rather than product development. But the long-term aim is clearly to reinforce the foundations of European industry by developing the techniques that will lead to more competitive technology and products.

Second, for the companies themselves, collaboration presents an opportunity to develop both their technology and overseas markets in Europe.

On the one hand, this can be regarded as a defensive strategy. A well-established company in France, for example, could form an alliance with a partner in West Germany in which each would give the other access to its own distribution system. They might at the same time swap some products and technology. As a result they both defend their position at home and at the same time improve their ability to compete overseas.

Over the longer term, these defensive manoeuvres could, of course, become more aggressive. Exposure to overseas market conditions will breed knowledge and greater skill in tackling them. Companies will learn the peculiarities of local conditions and become better able to exploit them. Takeover opportunities will become more visible. It may only be a matter of time before Europe sees the emergence of several more broadly-based companies as a result of these initiatives.

The balance sheet for this plunge into co-operative activity is undoubtedly mixed so far. Nevertheless, in certain areas the collaborative process has already become so deeply ingrained that it is hard to see Western Europe industrial development proceeding without it. Indeed, the variety of approaches developed in different sectors illustrates how broadly the principle can be applied.

■ Under the banner of the EC, for example, a series of initiatives were launched between 1983 and 1986. These include Esprit in microelectronics and information technology, Race in telecommunications, Brite, for the development of technologies to serve traditional industries, and Bap in biotechnology.

In addition to these Brussels-organised initiatives, the more broadly-based Eureka project was developed by individual Governments willing to come to financing arrangements with their home-based industries.

■ In the aerospace industry, the Airbus programme has brought Europeans together in a consortium which has established a credible technological alternative to the US airframe manufacturers.

■ Three of the region's leading computer manufacturers, Siemens of West Germany, ICL of the UK and Bull of France, have established a joint research laboratory in Munich.

■ Again in the data processing industry, a large group of companies has come together to establish the X-Open organisation with the aim of establishing a set of universal standards to apply to all computers. This programme has now developed to the point where the idea of having open standards – a set of rules that make it easy to connect diverse brands of computers into a common system – has gathered enormous momentum.

■ In telecommunications, European regulators have hammered out their differences over the next generation of digital car telephones to accept a common approach throughout the region. The concept is to allow a driver to cross all the borders in Europe and still use the same mobile telephone – something that is completely impossible at present; and to establish these networks and the organisations to produce the equipment, a series of pan-European consortia have already sprung into being.

■ In semiconductor research, two of Europe's largest producers, Siemens and Philips, have been working collaboratively on new high-density chips for several years. They now look set for an even more ambitious co-operative project which could embrace other companies as well.

These are only a few examples of what has become an extremely varied and complex picture of high technology joint ventures – Siemens alone, for example, has about 30 projects on hand at the moment, and ICL is involved in more than 20. But probably the most interesting issue in collaboration in the immediate future will be raised in Brussels this month, when a panel of experts will come together under the banner of the Esprit programme to choose the projects for the next phase of this ambitious exercise in jointresearch.

Esprit II will be particularly important in demonstrating the efficacy of such pan-European initiatives. The current programme has demonstrated that European companies and academic institutions can work together harmoniously, and some promising results have been achieved, particularly in the software area.

In the next stage, however, the Esprit projects will be pushed more in the direction of market exploitation. In particular, there will be a number of large technology integration projects (TIPs) that deliberately seek to bring together a range of different technologies. These have been organised in an integrated fashion because technology intensive products today generally require a broad mix of skills – often a wider range of specialist knowledge than is easily available within any single company.

One EC expert explains the aim of the programme in the following fashion. Esprit, he says is a vital element in making the EC's programme for developing an open and strong internal market a reality in the information technology area. First of all, it brings a number of companies together. Then it helps in making the technology widely available within Europe.

This in turn tends to promote a specific standard in Western Europe. With the support of this common standard European manufacturers have a larger potential market to attack, and should be stimulated to develop more products.

Finally, the existence of such standards strengthens the hands of European negotiators when involved in international standards-setting, and ought to produce companies with a broader market base from which to mount their attack on overseas markets.

Terry Dodsworth

New factory automation systems

Wealth of suppliers in all sectors

EUROPEAN SUPPLIERS of automation equipment for factories are at least the equal of their North American counterparts and way ahead of the Japanese in technological capability.

Europe also has some of the largest and most complex factory automation systems in place though almost certainly not as many as in the US. The vast majority of equipment supplied to these systems are European-made by European companies.

In one very significant product area, the Europeans are weak and that is in the supply of computer hardware. Equipment produced by the Digital Equipment Corporation (DEC) of the US has become something of a standard on the shopfloor and IBM has a very powerful vendor position in sales and ordering departments and the other sections of a company which have direct links to shopfloor production.

Car plant automation: Europe has some of the largest systems in the world.

Siemens, however, has made real strides in the supply of computer hardware for production while two other companies, Nixdorf, another West German company and Olivetti in Italy have made headway in their domestic markets. It is significant, though, that some West German machine tool-makers which use Siemens controls will still only use DEC computer hardware when putting together flexible manufacturing systems.

Siemens is really Europe's only manufacturing automation supplier with a reasonably broad though by no means comprehensive range of equipment. This includes computers, workstations and networking systems, machine tool controls, test machinery and a wide range of controls and drives for robots and materials handling equipment like conveyors. It can also act as main contractor and supplier of process and production control equipment for very large plant such as steel mills.

Siemens though has no capability in metal cutting and very little in materials handling and a sign of the pressures in factory automation supply was its decision, announced this month to merge its factory automation business with that of Westinghouse of the US.

What Europe certainly does have is scores of niche suppliers offering equipment in most product sectors, from flexible metal-cutting cells and transfer lines in car plants, to robots, automated guided vehicles and very specialist unmanned storage and warehousing vehicles.

The great strength in depth among European factory automation equipment suppliers does not make them immune from the structural pressures in the industry. There has been a steady concentration of power in the hands of fewer more powerful companies in many product sectors.

At the same time, West Germany continues to overshadow every other country in Europe in terms of product range and volume. Italy is coming up fast but France and the UK are in relatively weak positions as vendor nations. Sweden plays a significant role in one or two types of equipment, particularly robots.

The supply of flexible manufacturing systems in Europe is almost entirely carried out by European companies. The Japanese are weak in systems and US companies only have a small presence. Some US companies, like Cincinnati, might supply systems from their own European manufacturing bases as well as from North America.

The supply of FMS is in the hands of around 15 companies and it seems unlikely that many more will try and enter the field because of the cost and initial – and sometimes continuing – losses involved.

Outside West Germany there are a number of significant suppliers, like Mandelli in Italy and the smaller KTM in the UK but the Germans remain very powerful in this field.

Scharmann, for example now has around 50 people out of its total workforce of 800 working on softwear for FMS applications. It is a sign of the cost pressures, however that Scharmann says it does not yet make a profit on FMS supply. It argues, however, that supplying systems will become an increasing part of its business, that it will start producing sizeable profits in it and that it must stay in this field.

US companies such as Cross, Lamb and Ingersoll are big suppliers of transfer lines for the European car industry but the Europeans have a range of companies offering the latest technology, including a clutch of German companies like Burkhardt and Weber and Huhle-Hille. Having a large indigenous car industry to underscore a big machine tool industry is a crucial factor. Comau in Italy, expanding on the back of the Fiat group of which it is a part, is also a significant supplier.

European manufacturers have installed some of the world's most sophisticated materials-handling systems. For example, Jungheinrich, the Hamburg-based lift truck maker has introduced a system of 580 AGVs at Opel's Russelsheim plant.

The pressure on AGV makers, though, is acute and many are loss-makers. Some suppliers, like Dexion in the UK have becoming increasingly active but many companies have run for the cover of more powerful competitors. Over the past three years, BT in Sweden has absorbed Tellus Carrago as well as ACS, the AGV arm of Volvo. Linde has purchased Wagner. Schindler of Switzerland sold its loss-making Digitron automated guided vehicle division.

Robot manufacturing is another area where there is a tendency towards domination by larger companies. There are still scores of manufacturers offering robots, but most of them supply only a few a year. Some companies, like Taylor Hitec in the UK have specialist niches which, in Taylor's case, includes handling equipment for the nuclear industry.

A few big names though are becoming increasingly important in Europe which has around 40,000 robots in place, according to the British Robot Association. Asea of Sweden is Europe's biggest robot-maker with a broad range of products, including Esab welding robots. Other brand names increasingly visible in European factories are Cloos, a supplier of large welding systems and Kuka of West Germany which has sold extensively within the automotive industry.

Japanese robot-makers, like Fanuc and some US suppliers, are still very much in the European market but most factory robots supplied in Europe are from European companies. This includes Unimation, the British arm of Westinghouse.

Fanuc is certainly strong in machine tool controls but here too the Europeans, in particular Siemens are in a powerful position while a string of much smaller Italian companies like ECS are growing on the back of very advanced units.

Despite the strength of the Europeans, they occasionally seek the shelter of American multinationals. This has been particularly so in computer-aided design and manufacturing (cad-cam) where, for example, Dassault, the French aerospace company which is an important supplier of cad-cam benefits from a marketing and technology co-operation agreement with IBM.

Nick Garnett

EUROPEAN HIGH TECHNOLOGY 3

Aerospace

A spearhead industry

THE AEROSPACE industry has always been regarded as the spearhead sector for advanced technology, and this is just as true in Western Europe as it is in the US.

This is exemplified by the substantial volumes of research and development spending in the European aerospace industry, amounting to many hundreds of millions of pounds annually.

In the UK alone, British Aerospace in 1986 spent close to £83m on company-funded research and development, both in new products and into new methods and process technologies, so as to maintain and further improve its international competitive edge and technological expertise.

Rolls-Royce last year spent no less than £187m on R & D, or 41.7 per cent more than in the previous year, simply to enable it to remain in the forefront of the intensifying competition in the world military and civil aero-engine business.

Every other company in the industry, including those engaged in component and equipment manufacture, are obliged to spend substantial sums to maintain or improve upon their hard-won positions in the increasingly global markets for aerospace products.

Even so, there are many who believe that even spending of this magnitude is not likely to be enough in the future to enable the aerospace industry to keep abreast not only of the advances in technology but also the intensifying competition world-wide.

While substantial increases in industry-based R & D spending is inevitable, there are also now growing pressures for a greater Government awareness of the need for increasing its own share of such spending.

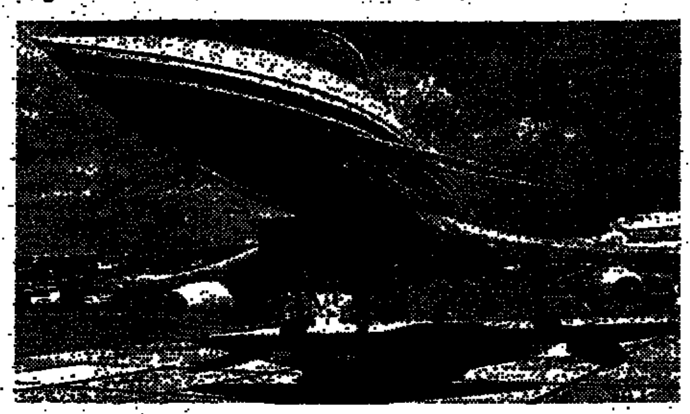
It came as a considerable shock, therefore, to the UK aerospace industry earlier this year when the Government declined to increase its own share of spending on space research and to participate in major new European space ventures for the future, such as the advanced Ariane V satellite launcher, the Hermes manned spaceplane and the European contribution to the projected US manned Space Station.

The heavy spending planned in Western Europe on the major new space ventures for the future, whilst to some degree duplicating what has already been done in the US, will nevertheless ensure for those European industries that participate a significant sharpening of their industrial technological edges, especially in such arenas as new metals, new materials and new techniques of development and manufacture.

Restrictions in the UK on the growth of space-related R & D are regarded as being bound eventually to be reflected in a declining space technological base that will be difficult for other areas of the aerospace industry to replace.

Accordingly, there is still pressue on the UK Government for a change of mind before it is too late.

Complementing what is already being done in space, much work is being done in both the military and civil aircraft and engine sectors of the industry,



The highly advanced EFA Eurofighter

which are widely recognised as having worked for many years at the frontiers of technical knowledge, pushing them forward to meet the ever-advancing requirements of a fiercely challenging and competitive market.

New techniques of computer-aided design, development and manufacture (CAD-CAM) and also robotics, were long ago pioneered in the aerospace industry, along with the development of new materials, some of which are still today only at the beginning of their useful lives, such as carbon-carbon composites and new alloys such as aluminium-lithium.

Even new ways of flying, such as the use of "fly-by-wire" techniques to manoeuvre an aircraft's control surfaces (rudder, ailerons and elevators) through electronic signals instead of the conventional control rods, wires and pulleys have been introduced.

As result, the control surfaces, and even entire wing sizes, can be made smaller, because they become more efficient. This in turn leads to reduced drag, requiring smaller, lighter engines burning less fuel to do the same job.

One example of all this in the military arena is the British Aerospace Experimental Aircraft Programme (EAP), that first flew some two years ago, embodying many of these developments, and which is being used as the developmental forerunner of the multi-national European Fighter Aircraft (EFA).

The latter, which is expected to be given its formal go-ahead this summer by the participating governments of the UK, West Germany, Italy and Spain, is widely regarded as the most advanced combat aircraft ever to be developed in Western Europe, embodying many of the developments pioneered with the EAP.

British Aerospace, for example, points out that the extensive use of carbon-fibre composites on the EAP itself has led to a reduction of up to 30 per cent in manufacturing costs, due to a reduction in the number of parts involved.

At the same time, there has been an increase in the strength-to-weight ratio in those parts; a reduction in the volume of waste materials; and an increased ability to produce the large complex shapes that are nowadays required in advanced military aircraft.

In the development of new metals, aluminium-lithium shows immense promise. It has greater

The first Airbus Industrie A 320 in British Airways livery

strength and stiffness than other aluminium alloys, but with a substantial saving in weight and a higher level of corrosion resistance. This material is still only in limited use but promises eventually to become as important in aerospace manufacturing as titanium has become.

But titanium is still being used extensively, however, especially in conjunction with new manufacturing and forming techniques, such as super-plastic forming and diffusion bonding.

The most significant example of the combination of many material developments is the European Airbus A-320 150-seat twin-engined short-to-medium range jet airliner, widely regarded as the most technologically advanced commercial airliner yet built anywhere, which has already captured orders and options for close to 500 aircraft and which is now about to enter fare-paying passenger service.

In fact, the catalogue of technical "firsts" for the A-320 is astonishing. They include the "fly-by-wire" techniques mentioned earlier, coupled with what is called a "side-stick controller" that replaces the customary pilot's control column on the flight deck, in turn creating a more spacious and comfortable environment in which pilots can work.

In effect, this computer driven "fly-by-wire" technique brings increased safety, as well as significant savings in weight and maintenance costs. It protects the aircraft against stalling, flying too fast or any other manoevures that might cause damage, thereby giving pilots a greater margin of safety in emergencies such as windshear, as well as reducing pilot work-loads in normal operations.

In addition, the A-320 is the first airliner to use the full potential of TV-like cockpit displays, integrating information previously shown on myriad separate instruments, such as altitude, speed, heading and the technical performance of the aircraft's engines and other systems, making pilot interpretation easier and simplifying the flight deck even further.

Coupled with these developments is a choice of the two most advanced turbo-fan aero-engines yet developed – the Franco-US (Snecma-General Electric) CFM-56-5, or the International Aero Engines' V-2500. The first A-320s are already flying with the CFM-56-5s, but the IAE V-2500 is well ahead in development also, and will fly for the first time this summer, entering airline service on the A-320 in the spring of 1989.

In addition to the A-320's technological leadership in fly-by-wire, it is the first airliner to enter series production with a weight-saving carbon-fibre fin and tail-plane.

Airbus points out that many of these ideas, pioneered on the A-320, are now finding their way onto the airliners of rival manufacturers. The engine manufacturers are as much a part of this move into advanced technology as the airframe builders. In the UK, Rolls-Royce has for some time past been evolving and expanding the use of automated production facilities as a means of saving on costs and improving efficiency.

This has become necessary in order to enable the company to remain at the forefront of civil and military engine sales world-wide in an increasingly fierce competitive environment.

One element in this is what Rolls-Royce calls "Aims" – Advanced Integrated Manufacturing System – a method of producing turbine and compressor discs for gas-turbine engines by means of computer-controlled cutting machines, with materials and parts being transported by automatically-guided vehicles.

"Aims" is capable of producing over 100 different engine components, manufactured in a dozen materials ranging from stainless steel to exotic nickel and titanium alloys. Where previously it required some six months to precision-manufacture such components, Aims can cut that time to six weeks.

Rolls-Royce's aim is progressively to extend this system though many other of its manufacturing programmes.

Michael Donne

Space programmes

Preparing for expansion

WESTERN EUROPE is poised to expand significantly its state-funded space programmes, giving the continent a planned capability to undertake manned space flights by the end of the century.

The value to Europe of these space projects, which are likely to cost a total of more than $30bn by the year 2000, is open to widely different interpretations.

They can be looked upon as a vital element in European governments' drive to keep the continent at the cutting edge of high technology.

According to this view, the investment in space technology is important, not only because of direct benefits of orbital flights, in terms of providing, for instance, new industrial techniques which take advantage of the low gravity of space, but also because it will give a boost to other areas of industry; through heavy expenditure on new, space-related, techniques, materials and computers which may have wider applications.

At the other extreme, the big new projects can be regarded as being motivated purely by machismo and political prestige. People who hold this view believe that the programmes are inspired largely by a political desire on the part of Europe to match the US and Soviet Union in manned space flight; they believe that the economic spin-offs will be next to worthless.

The UK Government goes along with the latter view. It sparked a political row last autumn by refusing to subscribe to the ambitious plans of the Paris-based European Space Agency, which are supported by the agency's other 12 members. They involve three major space research programmes for the remainder of this century, all of them connected with manned flight.

These projects, which are likely to cost about $13bn out of the agency's projected spending over the next 12 years of $32bn, are the manned Columbus space laboratory, the Hermes crewed space shuttle and the Ariane-5 rocket, needed as the launch vehicle to boost Hermes into orbit.

According to the ESA, all three schemes fit together and will take Europe into a new stage in space exploration. The French-inspired Hermes will be used as the service vehicle for Columbus, which is an orbiting workshop for experiments in such areas as low-gravity materials processing and biology experiments,and which is also e part of a US-led international space station planned for the late 1990s.

The plans foresee a big increase in the annual ESA budget, from about $1.7bn at present to around $3bn by the mid 1990s. ESA was set up in 1975 and is easily the biggest influence on Western Europe's space programmes. It gets its funding from member governments, with France, Germany, Italy and Britain (in that order) its biggest paymasters.

ESA programmes are agreed largely by consensus. They include not only the large and headline-grabbing manned space schemes but also a variety of other projects such as Earth-observation and communications satellites, scientific work involving astronomy satellites, and studies of the effects of weightlessness on crystallising materials – the crystals are grown in unmanned,automated space platforms.

The rest of Europe's space expenditure is met largely by other purely national government bodies of which France's space agency, CNES, is the biggest. It has a total budget (including its contribution to ESA) of $1bn a year.

Counting programmes run by these national bodies, total state spending on civilian space science and technology in Western Europe comes to about $2.7bn a year, a far cry from the equivalent US spend of about $10bn though somewhat higher than Japan's outlay on space projects which is put at only about $1bn

Private capital investment is not entirely absent from the European space industry. British Satellite Broadcasting, which aims to operate two satellites for TV transmission within the next few years, is privately financed, as is SES, a company in Luxembourg which plans another TV-broadcasting service based on its Astra space vehicle.

Arianespace, a company based near Paris, is also attracting private capital, having taken over from ESA the job of running satellite-launch services based on the current versions of the Ariane rocket. The company is aiming to launch eight Ariane missions a year and, because of the problems which have beset US satellite launchers, is currently the dominant force in the world launcher market. It is owned predominantly by a mixture of aerospace companies and banks – though CNES has an important one-third stake.

Inmarsat, a London-based, internationally-owned company, is still owned largely by government bodies but its private sector involvement is increasing , if only because its two biggest shareholders, Comsat of the US and British Telecom, are privately-owned. It is responsible for operating satellites for ship communications and is also moving into handling communications systems for aircraft.

Western Europe's biggest space companies, including Matra and Aerospatiale in France, Messerschmitt-Boelkow-Blohm of West Germany and British Aerospace, rely on government finance for virtually all of their programmes.

These companies justify this dependence by arguing that many space projects like Hermes and Columbus are too big, expensive and risky to appeal to private sector funding sources.

The in-built tendency of the space industry to look for state support is one reason why the Thatcher Government in Britain, with its privatisation drive, has been particularly reluctant to join the new ESA programmes.

In the meantime, however, the disparity of views in Europe about the wisdom of space funding persists. French space officials cannot comprehend the agonising in the UK over whether to back space technology; they view space as a realm into which mankind is bound to move on a semi-permanent basis and one which governments are almost duty-bound to support.

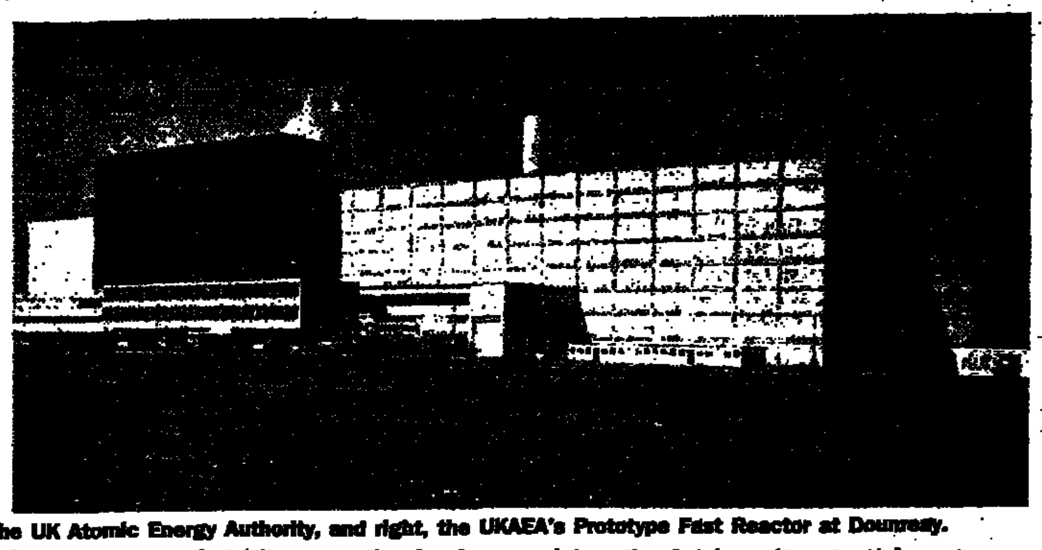
"When it comes to space technology, Britain is moving through a desert," was the emphatic comment of a top French space official recently.

Peter Marsh

EUROPEAN HIGH TECHNOLOGY 4

Nuclear power and plans for commercial fast reactors

Six nations' research link

Mr John Collier, chairman of the UK Atomic Energy Authority, and right, the UKAEA's Prototype Fast Reactor at Dounreay.

NUCLEAR REACTORS fuelled by uranium make up 16 per cent of the world's electricity-generating capacity – more megawatts then the entire world could muster in the mid-1950s when the first reactors came into service. In the 1980s, Europe overtook North America as the continent with the highest proportion of nuclear power.

Nuclear energy, successfully implemented is an effective way of stabilising power costs. Sweden, with 50 per cent nuclear electricity, has come to recognise this through a series of studies which show it can only replace its 12 reactors with other electricity sources if it resigns itself to the fact that power costs will increase sharply.

France, with 70 percent nuclear electricity, estimates that if instead it had turned to imported coal its power costs would have been about 30 per cent higher. France now exports about 10 per cent of its low-priced power to neighbouring nations with much less nuclear electricity among them Britain.

But even France, unique in Western Europe in having low-price uranium reserves, is importing half of the uranium it burns. The future of nuclear electricity lies with the fast reactor, a system which can burn the by-products of nuclear fuel manufacture for present-day reactors.

This by-product, known as "depleted uranium", is being hoarded as a fuel which will give its owners energy independence for centuries to come, with a certainty that cannot be vouchsafed by the coal reserves in Western Europe, for example.

Six nations are pooling their national research and development programmes on the fast reactor, in a club which is spending about £300m a year. Their aim is to have a commercial fast reactor design, acceptable to the electricity supply industry in Western Europe, early in the next century. The collaborating countries are Belgium, France, West Germany, Italy, the Netherlands and Britain.

Although the collaboration has still not been formally signed by the governments who pay for most of the programme, it has existed for several years. It has negotiated the phase when scientists from one country, learning for the first time of an interesting experiment or demonstration, immediately wanted to repeat it themselves.

It has agreed a "harmonised" programme, and which research or design centre shall specialise in each feature. France, for example, is now supplying the fuel for Britain's 250mW protype fast reactor at Dounreay in Scotland, as well as it own Phenix and Superphenix reactors.

Britain, however, has provided the club with highly encouraging data on fuel cycle costs from the Dounreay reactor and its associated reprocessing plant. It has demonstrated that fuel can remain in the reactor much longer, and then be reprocessed and returned to the reactor more quickly, than was expected when the club was launched. The effect on the inventory and hence on fast reactor economies is considerable, says Mr John Collier, chairman of the UK Atomic Energy Authority.

But the biggest challenge is still the capital cost of a complex nuclear engine that will run safley and reliably enough to satisfy the electricity companies as well as regulatory authorities.

To reach the commercial launch pad, the system must look competitive with the established nuclear technology. The first European bid to demonstrate a commercial-size fast reactor, with Superphenix in France, 1,200mW, has produced a system twice as expensive as the best France can offer with its pressurised water reactor (PWR), after the experience of designing over 50 big PWRs.

Subsequent efforts by design teams in the club have substantially reduced the capital costs – but not yet to the lowest PWR levels. European electricity producers still want at least 15 per cent more cut from capital costs – the current club target. They also want assurance of a long lifetime for a system that will be exposed to much more damaging levels of nuclear radiation than present day reactors.

But the target could move – in either direction. In the next few years an advanced design of PWR is likely to emerge from studies in the US, Japan and France, simpler and cheaper than present PWRs, to present the fast reactor with a tougher target. On the other hand, a new international oil crisis could send all energy prices soaring again, and enhance the case for energy independence and the speedy commercial launch of the fast reactor.

Current thinking within the club and its associated electricity-producers is that the commercial fast reactor will make its debut between the years 2020 and 2040, as a system fully competitive with anything the PWR can offer. The club wants to build and run a demonstration before the end of this century, to convince it potential customers worldwide that this can be done.

Mr Rerny Carle, deputy general manager of Electricite de France, spoke for Europe's biggest electricity producer when her told British MPs recently that, although the fast reactors was a long-term objective, it was necessary to keep continuity of the development programme – "If you don't go forward, you fall down," Mr Carle told a symposium of MPs, organised by the British Nuclear Forum.

Carle, project chief for Frances' protype fast reactor at Marcoule in the 1970s, says the way forward for Europe is a co-ordinated research and development programme, and a European fast reactor technology. Outside of Europe, both the USSR and Japan had big programmes – "If we don't make our own efforts in Western Europe, we shall end up buying a licence from these people," he predicted.

For the politicians, the question is: how much a year should be spent on this long-term objective? The present level of spending is largely dictated by the current scale of R and D activities, particularly in Britain, France and West Germany.

But all three face individual political problems – and all six club members share the common problem that opponents of nuclear energy see the fast reactor as the system that threatens to perpetuate the present growing dependence on nuclear electricity and is therefor a target to be destroyed before it becomes commercial.

For Britain a more specific problem is privatisation of electricity supply, at a time when the Government was hoping the electricity and nuclear fuel industries would pick up a steadily increasing proportion of the annual $100m fast reactor bill. Can a privately-owned nuclear company be expected to spend about $50m a year on such a long-term prospect as the Central Electricity Generating Board expected to do by 1990?

For France, the pressing problem is the damage done to public confidence by the sodium leak in the fuel-handling system which has shut down Superphenix. Although not safety-related, the leak has given French opponents of nuclear energy a long-sought weapon.

For Germany, that weapon was the arrival two years ago of fall-out, form the exploding Soviet reactor at Chernobyl. The SNR 300 prototype fast reactor at Kalkar languishes unlicenced in a region now politically hostile to nuclear power.

Could the fast reactor be superseded by a fusion reactor harnessing the nuclear reactions of the thermonuclear weapon or H-bomb? This now seems unlikely for despite frequent claims of an experimental "breakthrough", the fact remains that a controlled release of energy in this way has still never been demonstrated.

In other words, the concept has not yet reached the point of the first fission reactor demonstration in 1942. Recent results from the Joint European Torus at Culham, England, the world's leading fusion experiment, suggest that control is mnore difficult than even JET's designers expected.

In contrast to the fast reactor, Europe's electricity supply industry shows no interest in supporting development of the fusion reactor as a long cage prospect. What the research has already shown is that fusion if ever demonstrated successfully, will find it very hard to compete economically with the fast reactor.

The core of a fusion reactor will be exposed to even more damaging levels of radiation than the fast reactor. It will probably have to be completely replaced at least once in the lifetime of a fusion power station. This will have the double economic and yielding large amounts of radioactive waste.

David Fishlock

Corporate slimming in the electronics sector

A period of restructuring

YOU NEED travel no further than Eindhoven, the small Dutch town which houses the headquarters of Philips, Europe's biggest electronics group, to realise the pressures crowding in on those companies carrying Europe's high tech banner.

Top executives are working through the implications of a remarkable soul-baring performance by Mr Cor van der Klugt, Philips president, at the end of February.

Unveiling a 19 per cent drop in annual profits, Mr van der Klugt spelt out a catalogue of measures designed to restore the lumbering giant to economic health: up to 20,000 jobs, mainly in Europe, would be shed; the company's sprawling manufacturing base would be rationalised, with the number of factories in Europe set to fall from 170 to about 100 over the next few years; and more production would be shifted to low cost dollar areas, such as Mexico.

The implicit message was that even Philips, one of the handful of European electronics companies which ranks in the same league as the Americans and the Japanese, needed a hefty bout of corporate slimming before it would be fully in shape to meet the next round of the global onslaught being mounted by its US and Far Eastern competitors.

Moreover, Philips, long-regarded as the paradigm of a pan-European company, had much to do before it would even be ready to draw maximum benefit from the European Commission's drive to lower national trade barriers.

Philips's new bout of rationalisation comes in the middle of a period of continuous restructuring by the European industry. Almost every sector has seen a burst of mergers and alliances as European companies have pursued the twin-track policy of increasing their market presence outside their home territories and balancing spiralling R&D costs on a bigger sales base:

■ In semiconductors, the Megaproject bringing together Philips and Siemens of West Germany in a Government-backed scheme to develop the next generation of new memory chips is now judged to have been a technological success having overcome a difficult start. However, quarrels about whether SGS-Thomson, the Franco-Italian chip joint venture, should be allowed to participate appear to be marring the prospects of a successor to Megaproject, called Joint European Semiconductor Silicon (Jessi).

The SGS-Thomson alliance, forged last year, has now been followed by Plessey's drive to build up a sizeable UK chip company in the fast growing market for semi-custom chips, known as Asics. Its acquisition of Ferranti's semiconductor activities was designed to do just that.

■ In consumer electronics, before Philips latest round of restructuring, Thomson had emerged as the main impetus for rationalisation across Europe. Its purchase of Ferguson, the television manufacturing subsidiary of Thorn EMI of the UK, marked the end of a sizeable independent British television-making capacity.

■ Telecommunications equipment manufacturing has been in turmoil as companies have regrouped to meet the twin pressures of freer competition and increased development costs. In the past 18 months, Alcatel of France has been bedding down the telecommunications interests of ITT of the US which it now controls; Ericsson of Sweden has taken over CGCT, the second French exchange manufacturer; Northern Telecom of Canada has taken a quarter stake in STC of the UK; and Plessey and General Electric Company of the UK have cemented their telecommunications interests in a new joint venture, GPT.

More action seems in the offing, since Italtel of Italy is actively seeking a major partner. GPT has also stressed it wants to build alliances to help it increase its presence on the Continent and American Telephone & Telegraph is eager to draw more partners into its alliance with Philips.

■ Software companies are also joining the flight to size. Last month, CAP, one of Britain's leading computing services companies, agreed to merge with Sema-Metra, its French equivalent. This will create a company of a similar size to the newly-enlarged UK company, Systems Designers, which also completed its acquisition of Scicon from British Petroleum in March.

Both will still be smaller than CAP Gemini Sogeti of France, the largest European-owned computer service company, although they will now rank with the Americans in the world computing services first division.

■ Computer integrated manufacturing: even in the supply of automated systems for factories, where Europe has strength in depth, there is a trend for a concentration into fewer more powerful companies. Robot manufacturing, for example, is steadily becoming the preserve of a handful of powerful companies such as Asea of Sweden.

Many opportunities for niche players will remain in Europe's complex electronics scene, particularly in sectors such as software and customised chips which demand high value-added. However, as the Asic story demonstrates, what begin as niche markets can grow rapidly into major businesses.

The trend towards collaboration, including cross-border collaboration, seems certain to continue, particularly as companies gear up to meet the challenges of the next decade.

Foremost among these, if the European Commission's ambitious plans are carried through, will be the creation of a common internal market, putting a premium on companies with pan-European reach.

Europe still suffers from the absence of a clutch of world-class companies in sectors of the electronics industry. Only Philips ranks in the world league in semiconductors. No European group even scrapes into the world rankings in computers, although companies such as Siemens and Nixdorf of West Germany and Olivetti of Italy are keeping up the pressure.

Despite this lack of clout in many areas, the Europeans are having to dig deep to keep up with developments leading to the next generation of products. The hundreds of millions devoted to Megaproject show just how big a hole in companies' pockets can be burnt by this spending.

On the consumer front, Europe is devoting its energy to next decade projects such as high definition television and the "intelligent home" in a bid to keep up with the Japanese giants which dominate this sector. Meanwhile, the Japanese, buffeted by the high yen and anti-dumping duties imposed following a string of investigations by the European Commission, are opening increasing numbers of electronics plants in Europe.

These in turn have been dismissed as little more than "screw-driver" operations, lacking the design and development activities to be found in US concerns in Europe. Mr Takao Negishi, European director of the Electronics Industries Association of Japan, reacts by stressing how short a time most Japanese companies have been in Europe.

"It's absolute nonsense to compare the Japanese investment with American investment. This criticism lacks a historical perspective."

David Thomas

Defence equipment industries

Crucial role for electronics

Communications control console at RAF Oakhanger

ELECTRONICS is set to play an ever greater role in defence equipment and this rising importance is behind the prospect of the defence electronics industry changing in character into the 1990s more rapidly than in its recent history.

The industry is increasingly at the forefront of military developments – warships, aircraft, tanks and even munitions, such as artillery shells, are becoming "platforms" for the carriage of systems, based invariably on electronic designs including high-speed computers, with software programmes of daunting complexity.

The electronic systems are used to guide missiles, to confuse the enemy through the use of elaborate electronic counter measures, and counter-counter measures, for perceived enemies also have electronic counter-measures.

The pace of change in electronics in the defence industries is illustrated by the accepted need for "mid-life" update for many of the so-called platforms: the warships, aircraft and tanks. The basic ship or aircraft remains largely unchanged in these refits, while the electronic systems on which their roles depend, has to be updated and improved to match both the developing threat from the perceived enemy and to capitalise on the advances in electronics since the equipment was installed.

With the growing importance of electronics in military roles european electronic companies are trying in new ways to seize opportunities from technical advances in electronic theory and design and which are germinated by rising military needs. These needs themselves grow out of rising military expectations.

The defence electronics industry has rarely failed to come up with solutions to military requirements, although since the detailed requirements are generally classified and unavailable publicly, it is never possible to match a company's performance on meeting a military contract with the precise requirements of that contract.

There are some glaring exceptions, with the GEC Nimrod airborne early warning radar aircraft for the UK Ministry of Defence a classic recent example. In general terms, the Nimrod was deemed by the Ministry not to meet or be likely to meet the requirements of the ultimate customer, the Royal Air Force, instead, the US Boeing airborne warning and control system, Awacs, was chosen, but again, taxpayers have to rely on the wisdom and judgment of their political leaders for the final choice.

Companies in the European defence electronics industry, a collective term that does not reflect the current competitive nature of the industry, but which does hint at one likely outcome of some recent developments, are being forced to seek new approaches to contract for two main reasons.

Without exception, the main advanced industrial nations in Europe are curbing at recent rates of increase in defence spending. In the UK, defence spending is forecast to remain steady in real terms into the early 1990s.

In West Germany, pressure on the defence budget is leading to divisions that eat into the autonomy of German defence electronics companies by forcing reliance on US technology. In France, the country's historic go it alone policy is facing pressure from the rising costs of this type of defence procurement.

The French would like more partners for its Rafale advanced fighter aircraft, fitted with similar ultra advanced electronics systems to those of the British Aerospace experimental aircraft programme, the forerunner to the £20bn Eurofighter. This is Europe's biggest military programme and over 50% of the final cost of each aircraft will be accounted for by airborne electronic systems.

Eurofighter is supported by Britain, West Germany, Italy and Spain. France, which is not involved, would like other european nations to participate in its rafale programme, especially for the costly electronics work and the Belgians, Dutch and Danes are prospective partners.

In Italy, the Government continues to support collaborative programmes, but nevertheless in some defence equipment sectors such as attack helicopters and light military aircraft, it does still go it alone, although it is a full partner in Eurofighter.

At the same time, the defence electronics industries are facing curbs or at least zero increases in defense spending, the demands made on them by the military continue to increase. This is resulting in quite dramatic new pressures on the electronics companies. No concensus solution has emerged yet on how these conflicting pressures can be resolved.

In the UK, the effectively static defence budget for the end of this decade and the early 1990s is only a part of the one arm of the bear hug of pressure the electronics companies are facing.

The UK is moving rapidly towards a defence procurement system based, where possible, almost entirely on fixed price contracts. This contrasts with the outgoing system of cost plus contracts, where a contractor and the Ministry of Defence agreed to a fixed price regime, the contractor has to bear all the costs over and above the fixed price agreed at the outset of a contract.

This change is already having its effect on well-established defence contractors. GEC-Marconi, for example, one of the UK's leading defence electronics companies, has decided as a matter of policy not to attempt to develop its own solution to meet the requirements of the radar for the Eurofighter. Instead, it has joined a consortium of electronics companies from each of the other member-countries of the Eurofighter consortium, AEG from West Germany, Inisel from Spain and Fiar from Italy, to produce a radar based on the American Hughes APG 65 radar already in use on the American F-18.

Mr David Fletcher, managing director of Marconi Defence Systems says that the competition for the Eurofighter radar contract is crucial to the future shape of the European defence electronics industry, especially those parts involved in airborne radar.

The group led by AEG of West Germany is competing for the £1bn Eurofighter radar contract against a consortium led by Ferranti, which is proposing a derivative of its new Blue Vixen radar (designed for the Royal Navy's mid-life update of its Sea Harrier fighters).

In another European defence development, nine nations are seeking to develop a European-wide computerised data transfer network. The system is called the European Data Distribution System (EDDS) and is expected to be unveiled this summer. The countries taking part in EDDS are West Germany, which is leading the programme, Belgium, Denmark, France, Italy, the Netherlands, Norway, Spain and the UK.

The concept for this distribution system was approved by the Independent European Programme Group, a ministerial organisation that is part of Nato's structure in 1986. The aim is to allow the exchange and distribution of sensitive war information especially to the countries' air defence and air attack forces in Europe.

At the moment it appears that the US and Canada are not involved in the programme, a source of concern over the ideal of common standards and systems throughout the Nato alliance.

Lynton McLain

Telecommunications

Moving to centre stage

In Britain, a review of the rules governing British Telecom's price changes is being done by the Office of Telecommunications. Above: maintenance work being carried out on a BT dish aerial.

OVER THE next six months another act is likely to unfold in one of the longest-running dramas to grace the high technology stage — that of European telecommunications.

The story so far is of sleepy telecommunications authorities across the Continent rousing from their cosy roles as unchallenged suppliers of telecommunications services within their national boundaries.

A convergence of pressures has prompted customers, particularly big business users, to demand changes of the traditional PTTs. Telecommunications, which used to be of as little interest to senior managers as the office stationary, has suddenly moved to centre stage.

Not only is telecommunications forming an ever larger component of companies' costs, but the advances made possible by the new digital technology — the linking up of companies' phone and computer networks to allow the rapid transmission of large amounts of data, for instance — allow businesses to gain a competitive advantage from clever use of telecommunications.

The telecommunications authorities have been under pressure to relax their monopoly grip as innovative companies, often from outside their national boundaries, have offered the equipment and services powering these innovations. They have also been urged to reduce the cross-subsidies which have typically benefited the residential customer at the expense of the business user.

Meanwhile, the equipment suppliers, which have grown accustomed to the role of national champions within their protected markets, found they had to lift their horizons beyond their borders if they were to survive in the era of greater international competition. Weighed down by spiralling research and development costs, many opted for mergers or joint ventures with former rivals.

For its part, the European Commission — guided by its broader project of forging a common internal market by 1992 — has reacted by trying to hurry along the process of liberalisation and by encouraging the emergence of truly European standards to underpin a common European telecommunications market. More defensively, it is facing an upsurge in trade friction in telecoms now that the industry is becoming truly international.

Further action can be expected on all these fronts before the end of the year. Straws in the wind include:

■ **Liberalisation.** It should become clearer just how serious the main European countries are about rolling back the frontiers of their telecommunications monopolies.

In West Germany, further details should emerge about legislation to be enacted next year which will prod the Bundespost — long regarded as a bastion of conservatism — in the direction of greater competition.

The West German Government unveiled the main outlines of the legislation last month: the Bundespost will be split into the three businesses of postal, bank and telecommunications; the basic telephone monopoly will remain but competition will be injected into other areas of telecommmunications services; and procedures for licensing new equipment will be substantially relaxed.

However, many of the proposals remain vague, leaving ample room for skirmishing between the traditionalists and the reformers about their interpretation. The reformers hailed as a victory the decision this year to inject competition into West Germany satellite and mobile communications services, though others pointed dismissively to the fact that these are peripheral to the Bundespost's vast empire.

Politically controversial decisions are on hold in France until after the Presidential election next month. However, the Government has made some moves towards its oft-repeated objective of freeing the market: a second car telephone operator has been named; paging has been liberalised; and the fast growing market for value added networks has been liberalised.

More fundamental issues will be resolved only after the election, although there is little sign of any drive to introduce fundamental competition into the core network of the French PTT, now re-named France Telecom. The status of France Telecom itself, however, is to be transformed, with the concern acting less like an arm of Government and more like a commercial organisation.

In Britain, the main interest is in a review of the rules governing British Telecom's price changes now being undertaken by the Office of Telecommunications, the industry's regulatory body.

Not only is the exercise the first full-scale review of BT's framework since its privatisation, its outcome may also give some indication of how tough the British authorities are likely to be when they decide whether to inject even more competition into the British set-up in 1990.

■ **EC action.** A prod to liberalisation across the Continent is likely to be delivered soon as the elements of the European Commission's green paper on telecommunications come up for enactment, although a spanner was thrown in the works last month when officials from West Germany, France and Britain objected to the procedure being adopted by the EC.

However, the member states still profess to be behind the basic thrust of the Commission's green paper. The extent to which this is true should become clearer this month when telecommunications Ministers meet to consider the Commission's first proposal — the easing of rules governing the choice of terminal equipment.

■ **Industry alliances.** The forging of alliances which has shaken the European industry during the past few years is clearly not complete.

Several major joint ventures and takeovers are already in the bag, including Alcatel's acquisition of a controlling stake in ITT'S telecommunications interests; Ericsson's takeover of CGCT, the second French public exchangemanufacturer; the partnership between Northern Telecom of Canada and STC of the UK; and and the new joint venture between GEC and Plessey of the UK.

However, several pieces remain to be fitted into the jigsaw before it is complete. GPT, as the GEC-Plessey joint venture is called, stressed at its launch this month that it is pursuing alliances with other European players to build up its presence on the Continent.

Italtel of Italy has been openly courting a partner since the collapse of its talks with Telettra, another Italian company, last year. American Telephone & Telegraph is also seeking more partners for its joint venture with Philips of the Netherlands.

Moreover, outside these ranks of the traditional telecoms manufacturers, computer companies are showing increasing eagerness to take a slice of the action. IBM and DEC, US computer giants, are just two of the computer companies which have announced limited development agreements with telecoms companies this past year.

■ **Standards.** The drive to create pan-European standards moved centre stage at the end of last month when the first meeting of the new European Telecommunications Standards Institute was held in Nice, France. Represenstatives of 80 Government administrations, telecommunications operators, manufactuers, users and research institutes attended the opening sessions.

The Institute's backers hope it will have greater authority and more resources than the previous cumbersome approach to standard setting in Europe. They believe it will be able to cut through the red tape and sectional interests which have bedevilled standard setting, thereby creating the technical foundations for the unified European market.

The optimists can point to one success story already. The agreement on standards to underpin the next generation of cellular networks which is due to come into operation across Europe in 1991. Pan-European consortia of equipment manufactuers are already responding to invitations to tender from key operators for this innovative development.

■ **Trade.** This increase in activity also brings with it the threat of greater international friction as the stakes are raised. Equipment manufacturers in countries which have liberalised the fastest such as Britain complain that their goods are still kept out of other countries.

The EC is investigating its first telecommunications anti-dumping complaint — concerning cellular equipment flooding into the UK and Ireland. The Americans, with AT&T to the fore, have long grumbled that most European markets lag way behind the openness to be found in the US.

One measure of the success of the European authorities will be whether they can keep the liberalisation programme on track while easing the tensions which could erupt into major trade disputes.

David Thomas

Information technology

Need for strategic approach

The benefits of information technology for companies in many sectors of industry can be substantial.

EVEN IN a fast-moving field like high technology, it can pay to play the tortoise rather than the hare. European companies may largely have missed the boat in the development and manufacture of information technology (IT) equipment, but there seems no reason why they should not excel in putting IT to work.

It is an area where nobody yet seems to have all, or indeed many, of the answers.

In the notoriously complex business of using IT for competitive advantage, in fact, the quality of a company's strategic approach seems infinitely more significant than the sophistication of the equipment uses.

Despite the eagerness with which US companies embrace the newest technological trend, there is little evidence that their planning for IT for competitive edge is ahead of the best European companies.

Mr Martin Ray, Director of Development for Butler Cox, the London-based management consultancy, argues that most competitive edge applications use well-tried and tested technology — "I never fail to be surprised how crude US companies are in their approach to IT. European companies seem to have more sophistication in their thinking," he says.

In a recent and provocative study, he argues that most competitive edge applications "evolve" through the incremental extension of in-house systems, rather than a revolution in management thinking.

"Although competitive edge applications differ from each other in many respects," he writes, "a unifying characteristic is the basis on which they are justified."

"While conventional applications are typically justified on the basis of cost/benefit and return-on-investment analysis, this is not the case with competitive edge applications.

"These inevitably require the consideration of intangibles such as opportunities and risk — and commercial judgment is essential.

"This is a new dimension in the justification of information systems — and risk is a new dimension for most system directors and appartments."

For companies willing to take the risk, however, the benefits can be substantial. Look for example at the brilliantly successful Italian group, Benetton, a leader in fashionable clothing for the young.

Its use of information technology falls into two chief categories. First, manufacturing, where it has been innovative in design, dyeing and process computer driven cutting systems have reduced wastage; completed garments can be dyed in response to demand, cutting at a stroke inventories and matching product availability to the market.

According to Mr Ray, Benetton's top management views information technology as a key element in building with its trading partners a powerful international trading capability. That is seen in the electronic systems it uses to collect sales information throughout Europe; furthermore, it offers computer-based financial services to its 4,500 or so franchised outfits with a view to improving the quality of their operations.

Now Benetton has a turnover in excess of $1.5bn and pre-tax profits of about 10 per cent.

In the Netherlands, Akzo Dharma, a large pharmaceutical research and production company, has aroused interest in the quality of the computer systems it uses to control product development.

It has all the typical commercial problems of the pharmaceutical business. Research and development is a major and very expensive business with more than 800 professionals engaged full-time seeking tomorrow's major drugs. It can take 10 years or more to bring a new drug to market; testing the product over a substantial period of time to meet the demands of the various regulatory authorities is essential.

About half the development time of these products, however, is under Akzo's direct control and the company uses computers to control, register and monitor laboratory tests, effectively shortening the development's cycle time.

It has made possible the commercial justification of products that would not have been developed a few years ago.

There are a small number of other outstanding examples from Europe - Thompson Holidays in the UK, for example, which installed view data terminals on its agents desk and transformed the way the travel business worked.

That revolution is quite old now, but the innovation transformed the company as well as the industry; now Thompson is systematically seeking new opportunities to exploit information technology in other areas of its business, led, indeed by its senior management.

These two features seem to characterise the most successful use of IT by european companies, like for example, electrolux of Sweden or Philips of The Netherlands. First, they are in the second phase of their attempts to exploit IT; success in the first phase may have been chance as much as design.

Second, senior management are convinced of the value of IT and are actively promoting its uses - encouraged perhaps by their success in one phase.

In Scandinavia, examples of promotion at top level include Alfa Laval, which with its eyes on the coming of a truly common market throughout Europe in 1992, is establishing a single distribution for the whole of Europe in the Ruhr region.

The Belgians have proved to be advanced in national financial systems with the linking of their Bancontact and Mister Cash automatic telemachine networks; the French have similarly pressed ahead with their "Mintel" electronic telephone directory project with the "smart card", the bank card with a computer inside it.

One area where Europe seems at least as advanced as the US is in the development of "executive information systems" methods of presenting accurate and up-to-date business information on a screen in such a way that it can be easily retrieved and understood by senior managers.

Three companies build major systems of this kind — Pilot, a US corporation, Comshare, also US owned but with a significant interest in the UK and Metapraxis, a very new company based on the London outskirts in the UK.

Despite the fact that executive information systems are so new they are largely being installed by a respectable number of the larger companies — many are installing "corporate war rooms" with large scale graphic screens to improve boardroom communication.

It is more than just the latest fashion. These companies are showing the way ahead in the use of IT to steal a march on the opposition.

Competitive Edge Application, Myths and Reality. Butler Cox Foundation, December 1987.

Alan Cane

Consumer electronics

Improved systems on the way

CONSOLIDATION in the West European consumer electronics business took another significant step last year when Thomson SA, the French nationalised electronics company, bought Britain's top television producer, Thorn EMI's Ferguson.

Thomson, and its chief rival N.V. Philips of the Netherlands, now account for half of West European production and comprise a bulwark against further Japanese encroachment into this fiercely-competitive business.

Thomson, for instance, now claims a nearly 18 per cent share of the colour television market in Europe, next to Philip's 21 per cent. Matsushita, Sony, Toshiba and other Japanese producers share about 14 per cent of the business, according to the market research firm BIS Mackintosh.

In another key move with implications for the European market, Thomson last summer purchased America's leading consumer electronics company. General Electric of the US sold Thomson its $3bn business, including the GE and RCA brands, which control nearly a quarter of the American market.

This American deal gives Thomson not only a major US presence but access as well to GE and RCA's advanced technology in consumer electronics.

For instance, GE/RCA Consumer Electronics developed a system under consideration by the Federal Communications Commission in the US for the next generation of television technology, called high-definition television.

HDTV is to double, or more than double, the number of lines across the screen that make up a TV picture, and hence offer motion picture-quality viewing on a wider home TV receiver.

Thomson and Philips are also developing a different system for Europe. Both the European and American proposals are in response to a Japanese alternative that would calls for all-new television sets, broadcast and production systems.

The GE/RCA proposal, called Advanced Compatible Television, would allow new wide-screen sets, as well as the 140m sets already in use in the US, to receive future high-definition transmissions (although the older sets would not, of course, show the sharper image, just as black and white will receive but not show colour transmissions).

In the project, GE/RCA collaborated with the David Sarnoff Research Center, which was the RCA Laboratory before its purchase by GE and subsequent transfer to the Stanford Research Institute.

The Sarnoff lab was instrumental in developing the original US broadcast standard for the National Television Standards Committee (NTSC) 40 years ago, and has remained a principal centre for research in digital technology for consumer electronics applications.

This access is important to Thomson because the shift from analog to digital technology in television sets, hi-fi equipment, home automation and other personal entertainment markets is accelerating.

A competitive edge in these businesses will depend increasingly on expertise in digital technology. According to BIS Mackintosh, the value added to the worldwide consumer electronics market by digital products and components by 1991 will amount to $10 bn.

Says Piet W. Bogels, director of the Product Division Consumer Electronics at Philips, high-definition television "involves a huge amount of electronics. It can be done, but it's a lot of work."

Thomson, with its GE/RCA link, has strengthened its hand against the technical powerhouse, Philips, across the range of consumer electronics products. On HDTV specifically, the two are collaborating in a £210m, three-and-a-half year project under Eureka, the European programme for cooperation in high-technology.

The HDTV program is aimed at developing a new television standard by the 1990s. It involves about 600 people among 30 different European companies.

Philips, Thomson and their colleagues are determined to stave off a repeat of Japan's success in the US consumer electronics business, which has left Zenith as the only major American television manufacturer. The US, however, still dominates the far more lucrative software sector of the business.

Philips declines to discuss specifics of its strategy while it reorganises following its recently-reported 19 per cent drop in profits for 1987.

In HDTV, the Japanese have proposed a system for satellite delivery that requires all-new receiver sets in the home. This would mean that present-day television sets would be made obsolete once the new technology took off.

The Europeans, instead, are determined to back an evolutionary approach that would protect investments in television sets, broadcast and production equipment.

Interim steps to enhance picture quality are expected to take hold soon. BIS Mackintosh estimates that a quarter of homes in some leading markets will have "improved-definition" television by the mid-1990s. Such equipment will draw heavily on digital processing and compression techniques to boost picture quality.

Consumers will have less of a wait for some other new products. Digitally-enhanced video cassette recorders are on the way. And new gadgets for managing home control and automation systems are expected.

Even personal stereo has a new feature: now you can sing along to your favourite tapes or other musical accompaniment, and get a studio-quality recording of the result.

Perhaps the most exciting product to make its debut soon in Europe is the video incarnation of the Philips-Sony CD audio technology. Philips plans an autumn launch in Europe.

So-called CD Video has already been introduced, in September, in the US, where players are selling for between $700 and $950.

CD video discs provide top-quality sound and pictures. However, the consumer must buy yet another special player, which is hooked into the television set and the hi-fi system's amplifier and speakers.

Once again, there is a compatibility problem. A CD video disc will play on a regular CD audio player, but you will not get the pictures. However, the CD video player can accommodate discs of different sizes.

There are now four: the 12-inch, 60-minute disc known best by its old LaserVision names, a 20-minute 8-inch disc, a 5-inch disc and a 3-inch with 20 minutes of audio only.

Though already popular in Japan, with a half-million players sold there last year according to Philips, CDV has had a lukewarm reception in the US. According to Christopher Jackson, senior analyst in the Consumer and Technology Divison at The Yankee Group, a US market research company, a key ingredient has been in short supply.

"The software hasn't been available, so there's a problem getting people interested in the players," Mr Jackson says. "There has been a very slow market reception. It's too early to call it a flop, but the problems are endemic."

At Philips, Frits Schultema concedes that software has been lacking and says he is working with the Philips sister company Polygram to increase the number of titles prior to the European launch.

Jane Rippeteau

The impact of digital technology

Digital technology is having an impact on the following areas of consumer products, according to market analysts at BIS Mackintosh:

- ☐ New audio visual products, giving superior performance.
- ☐ The home office, with computers and communications.
- ☐ Home automation and new applicances.
- ☐ Electronic music.
- ☐ Electronic photography.
- ☐ "Electronic stationery"
- ☐ Personal electronics; toys and games.
- ☐ Advanced voice and image communications.

The computer business

Pressure on suppliers

THE COMPUTER business is going through a period of rapid technological change which is expected profoundly to alter the established pattern of competition and which may offer European hardware manufacturers an unexpected opportunity to redress the balance against the, principally, US-based opposition.

The picture at present, it has to be said, is not obviously encouraging. The only completely European computer manufacturers which can regularly claim a place in the world's top 10 computer manufacturers are Siemens of West Germany and Olivetti of Italy.

IBM of the US, the world's largest computer manufacturer, has the number one position in virtually every European country in mainframes, minis and microcomputers. More US companies, including Digital Equipment, the world's largest minicomputer manufacturer, and Unisys, the company formed by merging Sperry and Burroughs, vie for second place in the world rankings.

And in the important area of portable computers, it is the Japanese company, Toshiba, that has successfully opened up the market, rather than a European firm.

Indeed, using figures for 1984 it can be shown that in computer hardware, software and services, and factory and office automation, Europe imported three times as much as it exported.

Where European hardware companies are successful, their success depends on strategic alliances or exploitation of niche markets – Siemens and BASF, for example, joining hands as Comparex to sell large Japanese IBM-compatible mainframes.

Nixdorf, the West German minicomputer manufacturer, continues to show strong growth especially in the retail and finance sectors based on careful attention to its customers' requirements and a powerful skill in the integration of hardware and software.

All that said, the prospects for business in Europe are very promising as corporations in everything from financial services to manufacturing prepare themselves for the next wave of computerisation to sharpen their competitive edge.

Furthermore, European companies are promised new efficiencies and ease of operations with the proposed establishing of a truly common market in 1992. There are, in addition, new trends driving the industry which will put pressure on the traditional market leaders and could help European companies to benefit from their investment in collaborative research and development programmes like Esprit and Eureka.

The first is downsizing, using a small and inexpensive computer to run an application for which traditionally a large minicomputer or mainframe was required.

Downsizing is a consequence of the power of the latest generation of semiconductors able to process information 32 bits at a time like mainframe computers or store a million or more bits on a single silicon chip.

Although US companies like Intel, Motorola and MIPS are the leaders in this most sophisticated area of microelectronics, there are European companies – Inmos of the UK, for example – with the skills to develop these chips.

So there is a trend to the development at the high end of minisupercomputers, computers offering a sizeable proportion of the performance of a true supercomputer at a fraction of the price and at the low end, workstations, high performance personal computers linked together in workgroups.

One Esprit project has led to the development of a prototype mini-supercomputer. Developed by teams from the French companies Apsis and Telmat, the UK companies Thorn EMI and the universities of Grenoble and Southampton and led by the Royal Signals and Radar Establishment at Malvern, the prototype links 18 of Inmos's high speed transputer chips. A 300 transputer version, suitable for computer-aided design, is expected this month.

Workstations have chiefly been used by the scientific and engineering community. They are important to the whole of business computing, however, because they offer a very price competitive alternative to conventional minicomputers.

The US leaders in workstations are Sun, Apollo and Hewlett Packard, all building equipment exploiting the power of new "RISC" (reduced instruction set computing) chips. RISC designs trade off the speed and power of a relatively simple processing chip against very complex and powerful software – the so-called "optimising compilers".

Downsizing to workstations is coupled with a second trend which should also benefit European companies – the move to industry standards in operating and networking software. While there are a number of proprietary operating systems – Pick and Bos, for example – which have claims to be considered an industry standard, Unix, an operating system developed by the US telecommunications company AT&T, is beginning to emerge as the world standard.

Indeed, only last month, IBM announced that its version of Unix, AIX (Advanced Interactive Executive) was available on a complete range of systems from its Personal System/2 personal computers to its largest 3090 mainframes.

Europe, through groups such as X/Open, has been at the forefront of moves to establish a common version of Unix as a world standard, with the intention of establishing a "level playing field" giving companies and their customers the chance to escape from the grip of IBM's proprietary operating systems.

European firms have also been at the forefront of moves towards Open Systems Interconnection (OSI), the establishment of a single set of rules to ensure that equipment from all manufacturers obeying those rules can be connected together.

Experts believe that a combination of workstation technology, Unix operating systems and OSI holds the key to the best role for European firms in the information systems business of the future. US companies are unlikely to yield their dominance in large computers; Japanese companies will hold onto their superiority in chip manufacture. But the greatest demand now and in the future is likely to be for companies which have the skills to put hardware and software together – "systems integrators", the computer industry calls them.

Companies successfully making the transition to becoming systems integrators include traditional mainframe manufacturers such as ICL of the UK with special skills in retail and local authority work and electronics majors like Siemens of West Germany with a high reputation for implementing automated manufacturing systems.

There are also the software houses like CAP-Gemini-Sogeti of France and the newly merged Systems Designers/Scicon in the UK.

These changes reflect the power of the customer in today's business computing. The customer has had enough of shopping around for the elements of his system from a variety of vendors then waiting while the companies concerned solve the problems of putting them together. The customer is tired of companies which fail to understand his business. When the customer is in the driving seat, local knowledge of the local terrain is a powerful advantage.

Alan Cane

Software industry

Fragmented market

THE EUROPEAN software industry has always had difficulty competing with the United States. But the situation may be changing. A recent wave of mergers and acquisitions and the effects of deregulation in 1992 may be about to provide a context in which European program houses can successfully take on the Americans.

Until now, few European companies have succeeded in the US market. Those which have succeeded, such as the West German comapany Software AG, French Cap Gemini Sogeti, and UK-based Scicon, have been obliged to compete in niche markets.

The Europeans have been hamstrung by a number of factors. Inparticular, they have been held back by the the fragmented nature of the Euorpean market. American companies have been able to exploit a home market in which there are no linguistic divisions and few differences in specification from state to state.

Europe, on the other hand, has been handicapped by a multitude of accounting and judicial systems and a babel of languages. The individual national markets in Europe have been too small for companies to generate sufficient profits to compete with the US across the Atlantic.

However, some analysts believe that the recent spate of mergers may put an end to the handicap of a highly fragmented European software industry.

They point to recent moves such as the £82.5m bid by UK-based Systems Designers for Scicon announced in February which will create a software company with a combined turnover of around £250m. Other examples include the takeover launched last month of the Boston-based *Data Architects by Logica, the* UK software company. And more recently, CAP Group of the UK and Sema-Metra of France said that they were planning to merge.

"The software industry is a child of the last 20 years and is still really a cottage industry," says Jerry Jerram, finance director at Systems Designers. "But the industry can't continue to remain isolated. Our strategic analysis suggests that it will soon look like any other industry. There will be volume suppliers and niche companies. There will also be some failures. The present rate of take-overs suggests that competition to become a volume supplier is accelerating."

Rapid international growth *holds a number of attractions for* European software companies. They believe that if an effective distribution network can be established, lucrative mass sales of packages could be achieved, which at present are not realistic for most European companies.

Rapid international growth holds a number of attractions for European software and hardware suppliers. Above: ICL's *mainframes systems development centre.*

An wide international presence would also assist in other markets. In sectors such as banking and financial services, clients are demanding software support in centres around the world such as Frankfurt, Hong Kong, Tokyo and New York, as well as London.

The increasing size of software houses may also allow them to compete against major electronic companies for remunerative primary contracts. Until recently, larger electronic companies tended to win these and then sub-contract the software element to the smaller software houses – a procedure which the software houses resented. The *present greater size of software* companies may now allow them to compete on equal terms.

But not all are convinced that the future of European software is in terms of greater concentration.

"This myth of concentration has been created by analysts and journalists," says Michel Berty, secretary general of Cap Gemini Sogeti. "They have been prophesying concentration for a number *of years, but it is still* modest. Though there might be advantages, for the foreseeable future, I think the industry will remain much the same as it is."

Philip Hughes at the UK-based Logica is also sceptical about a trend towards larger software houses. He argues that there has been a trend recently towards what he terms "mega-contracts" which have to be divided up between members of consortiums.

"Teaming by companies of different nationalities has been overlooked by commentators," he said. "A local branch in Italy will not give you entry to large government contracts there. If you want to do well in the Netherlands, you have to team up with Philips. As long as there are political considerations, there will continue to be fragmented industry."

Others, such as Wolfgang Mudter, manager of international operations at the Darmstadt-based, *Software AG*, believe that the industry could even fragment more than at present.

"As the world software market continues to grow, so will thelevel of specialisation," he says. "And increasing specialisation will mean that the market will continue to to fragment into segments."

However, if the advantage of increasing size cannot be guarranteed for European software houses, they may find hope in the move towards independent operating systems. In the past, major computer manufacturers have tended to design their own operating systems, giving them a great advantage over the software houses when writing programs.

The move towards *Unix*, an operating system which is not owned by any one company, should help the Europeans compete on equal terms with the Americans, particularly in realm of personal computers. And a system of communications rules called Open Systems Interconnect which is being adopted will prevent IBM creating another world standard and give other companies the possbility of exploiting the communications market.

Another move which may help the Europeans is the move towards kernel or skeleton systems in the design of bespoke, custom-built, software – an area in which European companies have tended to be strongest.

A kernel of a program is used *as* the base for the bespoke package, while other sections required for specialist applications are especially written.

Wolfgang Mudter, at Software AG, believes that there will be a rapid expansion in the use of these semi-customised programs in the future because they are a much more efficient method of creating software.

The situation for the software houses may also be improved by the proposed changes in 1992. Most of the companies believe that the effect of 1992 will have important, though indirect, effects on the industry. The expectations are that the liberalisation and possible breakdown in national protectionism will favour the large, rather than the small.

If the European software houses are able to take advantage of the situation, it should also favour the Europeans over the non-Europeans.

Paul Abrahams

Semiconductor sector

Dilemma for producers

THE OUTSTANDING characteristic of the European semiconductor industry compared to its American and Japanese competitors is the relative absence of large-scale manufacturers.

The biggest of the European producers, Philips of the Netherlands, ranks seventh in the world league, its revenues of $1.6bn about half those of the industry leader, NEC of Japan. Neither of the two next largest European *companies, West Germany's* Siemens and SGS-Thomson, the recently-formed Italian-French group, figure among the international top ten. And in crude production terms, the Japanese and American industries each generate four to five times as much revenue as all the European manufacturers combined.

These figures have been at the heart of the debate about the future of the European semiconductor industry for the last few years.

If production volumes matter, Europe is clearly in a weak position, and probably becoming weaker as its trading partners expand more repidly and new Far Eastern production zones such as South Korea come on stream. Europe neither has a sufficient *number of large individual semi*conductor producers, nor a big enough overall presence in the industry, to be classified as anything other than an also-ran in the international market.

This matters in two different ways. First, despite the roller-coaster development of the computer industry, classically the subject of a boom and bust business cycle, it is a big generator of revenue, profits and exports.

In the mid-1980s, when the cyclical humps have been particularly pronounced, it has been fashionable in some parts of Western European industry to dismiss semiconductor manufacturing as a low margin or loss-making business which does not produce earnings consistently enough for prudent businesses.

The *critics can, indeed,* point to problems, with losses around the globe in the industry slump of the mid-1980s. But the sector's overall growth has fed through into spectacular growth for the successful suppliers. Texas Instruments of the US, for example, increased its net worth by almost 40 per cent from $1.26bn to $1.73bn in the five years to 1986, while Motorola's was more than doubled in the same period from $1.29bn to $2.76bn.

Second, semiconductors lie at the heart of electronics equipment, providing the brains of computers, manipulating the controls on domestic appliances, running televisions and speeding up the switching systems in telecommunications networks.

The quality of an electronics-based product is often *determined* by the sophistication of the chips within it. This point has been underscored quite recently, for example, in the development of higher performing desktop workstations, made possible by a new generation of "reduced instruction" semiconductors which cut out some of the conventional processing steps to produce faster operations.

The European response to this requirement for sophisticated chips has been extremely patchy over the years. A series of Government initiatives, such as the French moves to import US technology in the late 1970s, and the UK's plans in the same era to set-up the State-backed Inmos group, have sparkled briefly but never for very long.

The region has failed to develop any substantial, stand-alone specialist semiconductor producer of the type which is common in the US. Production today is mainly concentrated on highly-specialised niches in large electronics groups where the semiconductor output serve finished equipment lines downstream.

Niche production, however, has its limitations. By concentrating on small, specialised markets, European companies have a problem in generating sufficient funds to finance both technological innovation and improvements in their production line processes. Their international competitors have tended to move faster on both counts, partly they have the financial muscle to do it.

These challenges lie behind a series of recent moves by the European industry to try and reorganise simiconductor manufacturing throughout the region.

One strong trend in these initiatives lies in efforts to improve manufacturing processes, an area where Japanese companies have established a commanding lead in recent years, and which has become increasingly important as the information carried on chips has been packed into smaller and smaller spaces.

The most celebrated example of one of these recent European investments is the Megaproject that brought together Siemens of West Germany and Philips of Holland in a Government-backed scheme to develop new memory chips.

While the programme has had some problems, both producers have pressed ahead, and there are now indications that the project will have a successor in an even more ambitious collaborative venture involving other partners as well.

Other schemes have been launched in collaborative reseach projects sponsored both by national Governments and the European Community through the Esprit high technology programme.

These have typically brought together a number of manufacturers and academics to work on non-competitive technology, often in the field of very large scale integration – processes which will allow designers to bring many more functions onto the same piece of silicon.

A second group of initiatives has emerged from the attempts of several European companies to add to their industrial and financial fire power by increasing the size of their organisations.

The outstanding example of this trend was the merger last year of SGS of Italy with the component manufacturing activities *of Thomson, the French electron*ics company. This brings together a group which is aiming very shortly to have an annual turnover of about $1bn – a figure which is regarded by its chief executive, Mr Pasquale Pistorio, as the minimum required to be an effective playre on the world stage.

One of the potential strengths of the SGS-Thomson combine is that it already has a substantial amount of its assets invested in overseas operations. This means that it is in a similar position to most of its main international competitors, able to reap economies of scale and to learn from the advanced markets in which it operates.

Elsewhere, apart from Philips, which acquired Signetics in the US *some time ago*, European manufacturers tend to suffer from inadequate exposure to international markets.

Indeed, the need to expand its marketing drive overseas was one of the reasons why Plessey of the UK acquired Ferranti's semiconductor *business last year* in the second big reorganisation of the European industry. This deal concentrated the lion's part of the British industry under the Plessey banner.

The third leg of the European effort to strengthen the industry lies in the rapidly-developing field of semi-custom chips. In the 1980s, these semi-custome products, known as Application Specific Integrated Circuits (ASICs), have made much of the running in the chip industry. Made from largely standard semiconductors with a few circuits specially designed for the individual customer, they offer clients a specially tailored product at prices normally associated with off-the-shelf components.

European companies, led by *Ferranti, moved quickly into this* sector. On the face of it, the Europeans ought to be competitive with products of this sort because of their expertise in manufacturing for specialised applications.

Among the more established companies such as Siemens or Plessey, both design, software development and manufacturing are concentrated under the same roof.

Nevertheless, despite the vigour of the European producers in *this area, the combined size of* Europe's ASIC production is much smaller than that of the Japanese or American industries. According to figures from Dataquest, the US-based research company, the top three world ASIC suppliers are all Japanese, bolstered by the enormous consumption of chips in Japan.

This lucrative, large-volume base is now providing a platform for the Japanese companies to follow the Americans overseas and begin to attack the Europeans in their home market.

Terry Dodsworth

The quality of computers is often determined by the quality of the chips within it. Above: tests on advanced silicon chips being made at Plessey's plant at Plymouth.

Expansion of Western Europe's £200bn chemicals industry

Advances in new materials

ADVANCES in materials technology are fundamental to a variety of industries which have excellent growth prospects. The businesses range from electronics to aerospace and from cars to household equipment.

While most people automatically associate the phrase "new materials" with visions of novel types of semiconductors or the structural parts of the latest fighter aircraft, the use of such substances permeates far deeper into the kind of items used in everday life.

Many of the chemicals, for example, which feature in ordinary industrial products such as engine oils, detergents and water softeners depend on work to subtly re-arrange the atoms in organic molecules to come up better performance or different properties to existing compounds.

The consumer, also, is increasingly coming into contact with new materials through the use of novel types of plastic based substances in cars, packaging, kitchen goods and even childeren's toys.

Work in turning out new materials, if given a broad enough definition, may be considered a subsection of the chemicals industry, an area of business in which Western Europe has traditionally been strong.

The industry, with annual sales of about $200bn, is one of the continent's biggest businesses and also one of the most export oriented. In 1985, it had a trade surplus of $18bn, accounting for a fifth of Western Europe's total trade surplus for that year.

The continent contains no fewer than five of the world's top seven chemical companies measured in terms of sales, the companies being Hoechst, BASF and Bayer of Germany, Britain's ICI and Ciba-Geigy of Switzerland. (The other two concerns in this top category are Du Pont and Dow of the US.)

In common with most other chemicals concerns worldwide, the chemical leaders in Western Europe have been doing their best in recent years to concentrate resources on the higher-value, specialist products areas of the industry, part of which has involved a greater emphasis on work in new materials.

Ciba-Geigy, for example, has identified the electronic chemicals area as a business with strong growth characteristics. It is working on developing new types of plastics- and ceramics-based substances that are seeing use in new generations of microchips and printed-circuit boards.

The Swiss company is also one of the leaders in the plastics resins systems seeing use in composite materials for items like aircraft structures and car parts. In these products, the resin forms a base substance which is reinforced by fibres made from carbon, glass or other types of plastic like aramid.

Western Europe is particularly well poised to benefit from growth in the market for engineering plastics, which comprises relatively sophisticated forms of plastic seeing increasing use as metal substitutes in cars, electrical appliances and in some types of industrial machines.

The big three German chemicals companies are all in the world's five biggest suppliers of engineering plastics, which include compounds such as polyoxymethylene, polyamide, polycarbonate, polybutylene terephthalate and polyethylene terephthalate. General Electric and Du Pont, both of the US, are the other members of the leading quintet.

Bayer is Europe's biggest producer of polycarbonate, one of the most widely used forms of engineering plastic. Use of polycarbonate is growing particularly in compact discs, insulating film, car components and machine housings.

Bayer is also building up strength in the area of inorganic advanced-ceramic materials based on sophisticated substances such as silicon nitride, silicon carbide and alumnium titanate.

In this field, the German company has bought in recent years the majority interest in two ceramic specialists, H.C. Starck and Cremer Forschungsinstitut, both based in Germany.

Many of the products classed as new materials are research-intensive, not only in the sense that a great deal of laboratory work is needed prior to the marketing stage to understand their properties and find cost-effective manufacturing methods.

They also require a lot of work in what might be called the post-marketing phase. This involves interactions between researchers and potential users of the products to work out, for example, the correct mixture of chemicals in a given material to provide specific characterics in terms of hardness, heat resistance or electronic properties.

This is recognised by many of the leading players in the chemicals business which are trying to move towards the higher-value end of the market, not least by Shell International Chemical, the chemicals arm of the Royal Dutch/Shell group.

According to Mr Jim Gordon, the company's chemicals co-ordinator, much of today's materials-related research and development is being directed towards orienting existing substances towards the needs of users rather than attempts to find fundamentally new products.

To this end, Shell has recently opened a gleaming new laboratory near Brussels to try to provide better links between its company's researchers and customers in areas of plastics such as resins and modifications of polpropylene.

The latter is a relatively old form of plastic whose applications have been expanding greatly in recent years thanks to technological advances in dovetailing the properties of the compound for specific industrial and consumer uses.

ICI, the biggest UK chemical company, would not dissent from the view that many of today's advanced materials are based on substances which are positively long in the tooth.

As part of the company's general drive towards attempting to make its research activities more attunded to the needs of users, it has come up with a new plastic substance called Asterite which is a blend of two basic substances, silicon dioxide (sand) and methyl methacrylate, the latter being a widely used material found in acrylic sheet.

Peter Marsh

Biotechnology and health-care

A focus for investment

TWO NEW venture capital funds launched in the City of London last month stress health-care and biotechnology as their targets – and Europe as the focus of their operations. A region which has lagged behind the US in exploiting its own bioscience is awakening at last to the opportunities in new technology for regaining control of medical costs.

The first major new pharmaceuticals created by genetic engineering have begun to reach the market, a few years later than the optimists forecast when raising their research funds in the late-1970s and early-1980s. Their judgment was sound in believing that bio-science and its new "enabling technologies" would tackle some major health problems. It was often wrong in estimating how long it would take to demonstrate safety and efficacy in the new products.

In short, the entrepreneurs were often strong on science but weak on management skills.

Europe could take good advantage of the experience of the first decade of the new biotechnologies. Its science – particularly that of Britain, with such centres of excellence as the Laboratory of Molecular Biology in Cambridge – is still eagerly sought by US companies. Fresh interest by venture capital funds, having genuine industrial experience of new technology and start-up companies, willing to back scientific enthusiasm with managerial as well as financial resources, could give the next round of European ventures a head start.

British Biotechnology, at Cowley near Oxford, shows that the pioneers have by no means exhausted the potential targets. Launched in late in 1986 by senior staff from a British research centre abandoned when Monsanto bought G.D.Searle, the company raised £2.5m. for research on "third generation" bio-targets.

Guinness Mahon, the merchant bank, announcing Medpro, its new trust for launching medical and surgical companies, hopes to raise enough funds for 20-30 new ventures, mainly in Britain.

Their common theme is to be *greater efficiency or productivity* in medical practice. The bank has already backed one such launch this year, in partnership with Charterhouse Bank. Bioseparations Associates is a new Scottish biotechnology firm with a novel filtration process for separating blood products and fractions, claimed to be simpler and quicker than current centrifugal separations. The new process is scheduled to come on-stream at Livingston, next year.

Charterhouse Bank has since launched a £40m. venture capital fund with a strong emphasis on biotechnology and healthcare. It is to be a European fund with strong emphasis on new British ventures and on co-operation with European venture capital sources, its managers say. They see the sector as appropriate for venture capital – "large, rapidly growing, international and not normally susceptible to economic cycles."

Their confidence is founded in an earlier fund launched in 1984, which invested £4m in six biotechnology and health-care ventures.

Swiss venture capital is backing an international pooling of scientific resources into a consortium to tackle the problem of Aids. Lombard Odier, the private Geneva-based bank, has brought together three major British medical research bodies, and three US medical organisations, in a partnership which agreed at the outset on the share-out of intellectual property rights.

In Britain, the Medical Research Council, the Imperial Cancer Research Fund, and University College, London, all have equity stakes in the project. This project aims to be testing its Aids vaccine in patients within three years. The project has total funding of over £5m, of which Lombard Odier itself has contributed over £1m.

Last year, Lombard Odier set up Hiver, a London science company in which the three UK research bodies each have equity. Last month, the bank brought Hiver into partnership with the Southwest Foundation for Biomedical research in San Antonio, Texas, the main recipient of an $8m research grant from the US National Institute of Allergy and Infectious Diseases in Washington, DC, for research on an Aids vaccine.

David Fishlock

Science Editor

Pharmaceuticals

Sales at record levels

WESTERN EUROPE'S strength in depth in pharmaceuticals appears obvious enough to anyone who takes a cursory look at the drug industry league tables.

The continent contains five of the world's top eight drug companies, measured in terms of sales, which are mainstays of the $100bn-a-year global pharmaceutical industry.

This quintet of star performers – Hoechst and Bayer of West Germany, Switzerland's Ciba-Geigy and Sandoz and Glaxo of Britain – all had drug sales in 1986-87 above $2bn, according to industry statistics published by Scrip, a UK pharmaceutical industry newsletter.

Beneath this top five are a group of seven middle-ranking health-care concerns from Europe, all of which are in Scrip's top 30 drug companies worldwide. The seven are F. Hoffman-La Roche ofSwitzerland, Boehringer Ingelheim and Schering of West Germany,Imperial Chemical Industries, Beecham and Wellcome of Britain, andFrance's Rhone-Poulenc.

West Germany, Switzerland, Britain and France, Europe's top countries for drugs development and production, have strong balance of payments surpluses in pharmaceuticals and high levels of research and development.

As regards research expertise, European laboratories devised the formulas for four of the world's six top-selling medications, all of which had sales in 1986 above $500m. The pharmaceuticals in question are Zantac, the anti-ulcer drug sold by Glaxo; Tagamet, also for ulcers, developed in the UK research centre of SmithKline Beckman of the US; Tenormin, a product for treating high blood pressure made by ICI; and Ciba-Geigy's anti-arthritis formulation, Voltaren.

Beneath this generally rosy picture are a few worries shared across the whole of the European pharmaceutical industry. Probably the biggest concern is uncertainty about the future drift of government regulations and policies over health-care.

In most European nations, governments exercise huge powers over the drug industry. They are normally the biggest single purchasers of medications and also regulate companies' affairs via rules over product promotion and testing of pharmaceuticals prior to marketing.

Even the slightest change in government policies can, therefore, have a marked effect on the fortunes of a particular nation's pharmaceutical industry.

Company representatives are worried about moves by state health departments to press for price decreases for drugs as part of cost-cutting measures.There are more fears about the possibilities of governments instituting tougher pre-marketing trials procedures that could add tothe 10 or so years which it often takes to bring a product from the age of invention to sales.

Both sets of developments, so industryleaders believe, could eat into profit margins and make future prospects for the drugs business less bright than they might otherwise appear.

The mood in the European industry may be a little subdued at present for reasons connected with the lack of anything to show for two recent frustrated attempts by European companies to take over big US drugs concerns.

Both Roche and Sanofi, a French company, failed in their approaches to win control of Sterling Drug and AH Robins, both enterprises eventually passing to US concerns, Eastman Kodak and American Home Products respectively.

The takeover battles show the importance with which European drugs companies view getting a strong involvement with the US drugs business, which accounts for about a third of the total world market for pharmaceuticals.

The tussle for Sterling Drug, a specialist in over-the-counter or non-prescription medications and which was eventually aquired by Kodak for more than $5bn, also illustrates the increasing interest by Europe's drug businesses in the non-prescription market.

This sector of the industry, which is small by the standards of the prescription-only area and accounts for world sales annually of about $20bn, is none the less growing quickly and is dominated by US companies.

Of the top ten over-the-counter companies in terms of sales only two, Bayer and Beecham, are from Europe with other others, Procter & Gamble, Warner Lambert, American Home Products, *Johnson & Johnson*, Sterling,Bristol-Myers, Schering-Plough and SmithKline Beckman, are all US-owned.

Sandoz, the second-biggest Swiss drugs company, has indicated its interest in expanding significantly its over-the-counter business, especially in the US.

Glaxo, the biggest UK company in pharmaceuticals, has agreed with the Swiss concern for it to market in that country a non-prescription version of its Zantac product for use in treating stomach disorders.

Other companies in Europe with particular strengths include Bayer which is reckoned to have promising prospects in an area of heart drugs called calcium antagonists. Beecham, the UK company, has interesting products in its research pipeline in the field of thrombolytics (a class of drug for unblocking blood clots immediately after a heart attack) and anti-anxiety products.

Among the smaller European companies, Sweden is represented by two companiesthought to have a lot of potential. Astra, the biggest Swedish drugs concern, has built up a reputation mainly in cardiovascular medications. It has an important agreement to sell products in the US through a licensing arrangement with Merck, the US giant which *is the the world's biggest* drugcompany.

Two particularly good products in Astra's research programme, which shouldbe on sale in the next few years, are thought to be Plendil, a calcium antagonist, and Losec, an anti-ulcer formulation which will compete with Zantac and Tagamet but is reckoned by some observers to have better characteristics in terms of patient acceptance.

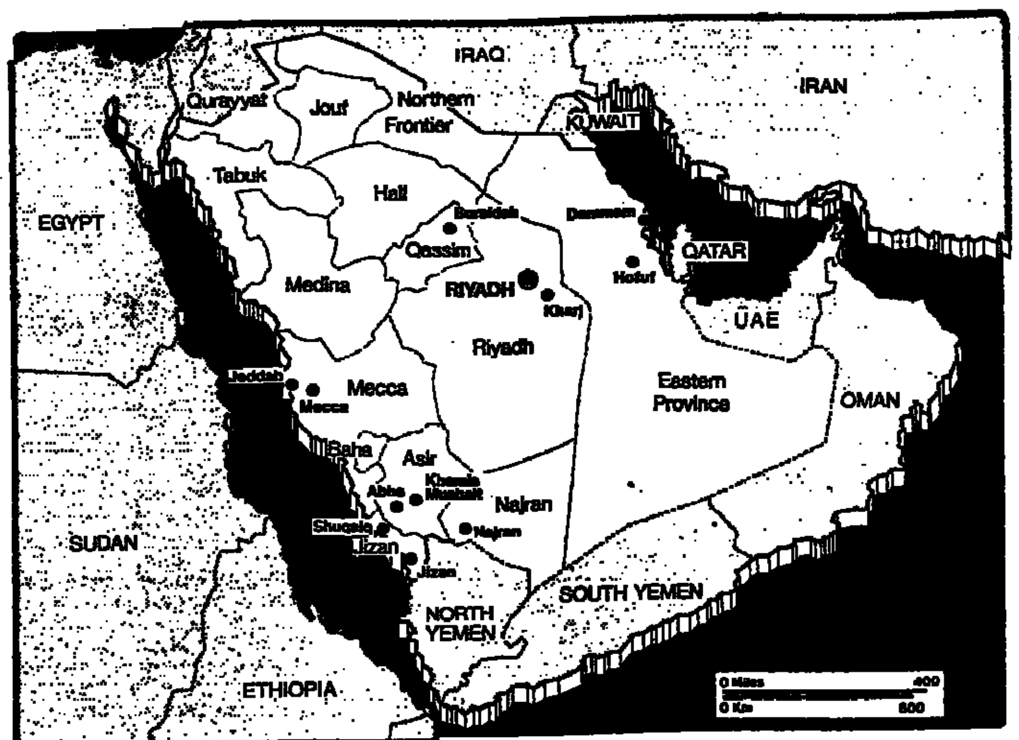
Pharmacia, Sweden's second ranking pharmaceuticals concern, has been building up strength in the new techniques of biotechnology, a field in which it should be helped by its recent acquisition of LKB, a leading Swedish instruments concern which is a specialist in biotechnology-based methods of separation and purification.

Peter Marsh

SECTION IV

FINANCIAL TIMES SURVEY

The Kingdom seems stable and united despite the pressures of regional war and economic recession. But King Fahd faces awkward dilemmas in reconciling traditional and modern and in adjusting to a prolonged era of low oil prices, writes **Andrew Gowers**, Middle East Editor



King Fahd: faces awkward dilemmas

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Saudi Arabia

Learning to live with less

LAST AUGUST, as the annual multitude of visiting pilgrims headed home from the Saudi holy cities of Mecca and Medina, King Fahd gave vent to an unusual public outpouring of gloom.

"We do not see a single glimmer of hope on the horizon," he said in a speech marking the end of what had been a fateful hajj (Moslem pilgrimage). "We see the dangers multiplying today around us and disasters escalating."

One did not have to look far to understand the reasons behind the Saudi monarch's anxiety. Only a few days before, Mecca – Islam's holiest site and the centrepiece for Saudi Arabia's claim to leadership of the Islamic world – had become the scene of a bloodbath involving Iranian pilgrims and the Saudi security forces, causing more than 400 deaths and leading to an unprecedentedly bitter flood of recriminations between Riyadh and Tehran.

On the Kingdom's doorstep, the seven-year-old war between Iran and Iraq raged with undiminished intensity, with Iran mounting near-indiscriminate attacks on ships (including Saudi vessels) trading with Arab ports and threatening for the first time to bring the conflict directly to the other Gulf states.

The Gulf itself appeared to be rapidly developing into an arena for possible superpower confrontation, as the US and its allies mounted the biggest Western naval build-up since the Vietnam war to a chorus of fi[illegible] [illegible]viet criticism. The Saudis, while quietly cheering on American intervention to safeguard freedom of navigation, were coming under embarrassing pressure to do the politically impossible and collude openly with Washington.

And at home, Saudi Arabia's economy – a prey as ever to the vicissitudes of the international oil market – was mired in the fourth straight year of an economic recession that threatened to erode the Government's ability to make unlimited provision for its citizens and its financial and political influence abroad.

From the vantage-point of April 1988, the leadership's concern on some of these scores may seem to have been overdone. The Kingdom has, after all, come through plenty of similar or worse political crises in the past pretty much unscathed.

The carnage at Mecca united the Saudis in outrage, and provoked an impressive show of solidarity with the Kingdom and anger with Iran throughout the Arab and Islamic worlds. Significantly, it did not cause the 250,000 or so Shias in Saudi Arabia's Eastern Province to come out in sympathy with Iran as they did in the wake of the Iranian revolution in 1979.

The Gulf war – although showing little sign of coming to an end – has at least been contained, and the prospect of either Iran or Iraq emerging victorious seems as distant as at any time since the conflict began. Thanks in part to the US military presence, Iranian threats to draw the Kingdom and other Gulf states into the war have remained unfulfilled.

The Saudis have managed to keep their co-operation with the Americans discreet and have successfully resisted political pressure to allow US forces basing rights on Saudi soil.

On the economic front, the Government has continued to tread a cautious path by cutting expenditure but going out of its way to shield its ordinary citizens from the worst effects of recession. The relative prosperity of native-born Saudis – and even of non-Saudis in the Kingdom – is a powerful deterrent to rocking the boat.

In short, contrary to some of the more apocalyptic scenarios sketched out in recent years, none of the problems preoccupying the Saudi leadership has yet taken on a form which might remotely be described as a serious threat. Indeed, the durability and stability of the regime through all the shocks and reversals of the last 25 years – and amid considerable turbulence in its immediate neighbourhood – remains a source of fascination and some surprise to outsiders.

As political ideologies have come and gone elsewhere in the Arab world, as undreamt-of riches have poured into Saudi coffers and partly poured out again, as the 20th century has made its rude and potentially disruptive entry, the Kingdom has adapted and survived.

With considerable success so far, the Saudis have co-opted the trappings of the modern Western world to bind their country economically and physically together, while clinging firmly to religious and social tradition.

Leaders from King Feisal to King Fahd have balanced the needs of a growing educated and modern-minded elite with the unchanging wishes of the religious hierarchy. Within a political system which reserves ultimate power for the monarch and a privileged position for other members of the royal family, they have been careful to rule by consensus, to pay close attention to the views of the religious leadership (the Ulema), and to engineer a broad spread of the country's wealth. Once alerted to danger they have swiftly and effectively neutralised areas of potential discontent, such as the Eastern Province was in the late 1970s; in the last few years, Prince Mohammed bin Fahd, the King's son who was made governor in 1985, has brought about a sea-change in the region's political and economic environment.

With the sons of King Abdul Aziz, the founder of modern Saudi Arabia, still firmly in control and the succession to King Fahd clearly defined, it would take a brave and quite possibly foolish pundit to suggest that the leadership will not continue to do all these things for the foreseeable future.

To admit this much is not, however, to belittle the challenges and dilemmas facing the leadership in the late 1980s. These are being sharpened by the Kingdom's current economic straits, and – some Saudis say – by the King's reputation for being less than decisive on key issues.

There remains considerable uncertainty and quiet dissension, for example, over the speed of the Kingdom's modernisation and the rigour with which a traditional interpretation of the Koran should be applied to daily life.

In some ways, this dichotomy has become less acute in the last few years, because the pace of development has naturally slowed with the completion of much of the country's infrastructure and the fall in oil revenues. Saudis still like to talk of the current phase as "a pause for reflection", an opportunity for reassessment after the totally disorienting boom of the 1970s.

But the psychogical strains from the breakneck pace of change in the last 15 years are still apparent. Thoughtful Saudis agree that this has created a "split personality" among many of their compatriots, and a division between their public and private behaviour.

There are increasing signs that the Kingdom has a drug problem. Saudi newspapers are regularly publishing horror stories from drug addicts undergoing treatment at clinics within the Kingdom, and the Government has introduced the death penalty for drug smuggling. Those who have studied the problem say that the vast majority of these unfortunates picked up their habit abroad, and pursue it partly out of boredom when they return.

In other ways, friction between "traditionalists" and "modernisers" has grown and become more institutionalised. On the one hand, it seems clear that Fahd himself has become steadily more conscious of the stricter dictates of religion since becoming King in 1982. When he was younger, he spent much time in the West, and as Crown Prince in the 1970s, he had a relatively liberal, progressive image.

Today he cuts a more austere and conservative figure – perhaps out of a desire to compensate for his earlier reputation, perhaps because of a consciousness of criticisms from elsewhere (notably Iran) of the alleged worldliness of the Saudi monarchy, perhaps simply because of his own advancing years and the demands of the top office in such a traditional society. Whatever the reason, Fahd's speeches are suffused with references to Islam to a degree unusual even for religious Saudi Arabia. And about 18 months ago, in a gesture clearly designed to underline his credentials as an Islamic leader, he decreed that he should henceforth be referred to not as "Your majesty" but as the Custodian of the Two Holy Mosques.

But if the Government is currently enforcing adherence to tradition as strongly as ever, it also faces conflicting demands from a new generation of graduates fresh from education in the West, and from a rising generation educated at home.

It is easy to exaggerate the potential problem which this portends. There is plenty of evidence, for example, that the foreign-educated younger generation is itself highly conservative. After their time at Western universities, young Saudis almost all return home and conform. On the other hand, home-grown graduates – many of whom chose religious studies as a soft option and may now be finding it more difficult to secure a job – tend to sympathise with Saudis who are uncomfortable with the Kingdom's move into the modern world.

One issue on which differences between the two camps are regularly rehearsed is the role of women in Saudi society. Educated, reform-minded Saudis – although they generally agree that a woman's place is in the home – sometimes complain about the extent of current restrictions which forbid women to drive or, generally, to enter paid employment. The most outspoken among them, like the liberal Prince Talal, argue that by educating large numbers of women without planning a role for them, the Kingdom is creating a worrying problem for itself in the future.

The debate between religious tradition and modern practice also impinges on business. The Kingdom's banking sector has been sorely troubled in recent years by the Islamic prohibition on bank interest, which has hampered efforts to clear up a big backlog of bad debts. Businessmen and lawyers complain that the Government has been slow to develop a proper structure of commercial law – a concept unfamiliar to traditionalists who argue that the Sharia (Islamic law) provides a comprehensive and adequate legal framework for the Kingdom.

"There's nothing wrong with the Sharia as such: the problem is its detailed application," said one business leader. "We need commercial courts that are technical and secular in composition."

Another, rather less prominent, bone of contention is the question of political participation. Saudis in general are an apolitical bunch, and they do not seem particularly perturbed that King Fahd has failed to deliver on his long-standing promises to set up a consultative assembly (Majlis al-Shura), draft a "basic law" (a sort of constitution) for the Kingdom, and reform local government. Nor is anyone inclined to question the concentration of power in the hands of the Al Saud, which Saudis – whatever their specific grumbles on such questions as the royal family's share of the economic cake – recognise as a vital guarantee of stability, unity and prosperity in a turbulent region.

Nevertheless, it is true to say that there is a generalised, albeit vaguely-defined, wish on the part of the educated middle classes for more of a say in public affairs, which the royal family's tradi-

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The Gulf War and relations with Iran dominate foreign policy

The hot highway to Mecca

FROM THE beginning of July, it would be reasonable to forecast a sharp rise in the political as well as the atmospheric temperature in Saudi Arabia.

For this is the month of the hajj (pilgrimage), when some 2m foreigners, including up to 150,000 Iranians, pour into the Kingdom on the Moslem pilgrimage to the holy cities of Mecca and Medina. Always a somewhat fraught affair for the authorities, the hajj is this year beset with special sensitivities because of the riots which the Iranian contingent instigated in Mecca last July, in which more than 400 people were killed. The Saudis will be more than anxious to avoid a repetition, and have been warning Iran's revolutionary regime not to attempt anything of the kind.

In fact, partly because of what happened at Mecca, the Gulf war and relations with Iran have come to preoccupy Saudi leaders over the past 12 months more than at any time since the Iranian revolution of 1979. They have seen an escalation in the conflict at sea, with a number of their ships attacked by Iranian speedboats; heavy superpower involvement in naval operations in the Gulf and in diplomacy to try and end the war; and a degree of Arab – and indeed, Islamic – solidarity unprecedented since Iraq invaded Iran in 1980. And Saudi foreign policy, under the able tutelage of Prince Saud al-Feisal, the Foreign Minister, emerges from it all remarkably well.

There is no doubt that the Mecca incident hit Saudi Arabia where it hurt. Violence in Islam's holiest place caused a wave of revulsion and outrage to sweep the Arab and Islamic worlds. In seeking to dramatise their persistent claim that the Saudi monarchy is an unworthy custodian of the shrines – an accusation that strikes at the heart of the Al Saud's legitimacy – the Iranians also roused King Fahd and his brothers to an unaccustomed bout of high-profile public activism.

The effects have been visible in several spheres. In the first place, the Mecca riots shattered the tense but pragmatic *modus vivendi* which the Kingdom had built up with Iran – involving high-level visits back and forth and a degree of co-operation on oil policy – over the preceding three years. Since August 1987, the Saudi Government – which had hitherto bent over backwards to adopt a conciliatory approach to Tehran – has been pursuing a virulent propaganda campaign against Iran's Ayatollah Khomeini.

Shortly after the riots, the authorities in Riyadh revealed that Iranian pilgrims had been discovered carrying explosives to the 1986 hajj, an incident that had been hushed up at the time. And late last year, Sheikh Abdul Aziz bin Baz, the senior Saudi religious leader, joined the World Moslem League in declaring the

Violence in Islam's holiest place caused a wave of revulsion and outrage to sweep the Arab and Islamic worlds

Ayatollah and his followers (though not Shia Moslems in general, of which there are about 250,000 in the Kingdom itself) to be "apostates".

The criticism continues to this day, though perhaps with somewhat diminished intensity in the light of a "dialogue" which the Iranians are supposed to be having with the six-nation Gulf Co-operation Council.

Second, the Mecca riot, which demonstrated in the most vivid terms the danger that continuation of the Gulf war could pose to Saudi Arabia itself, helped to harden existing Saudi attitudes to the conflict. Riyadh, which has been calling on Iran to end hostilities for years and at the same time provided significant financial and other aid to Iraq, has drawn even closer to Baghdad: not, as many Saudis will tell you, out of any innate affection for the Iraqi regime but simply because preventing an Iranian victory is regarded as absolutely essential to Saudi security.

Third, the events of last summer gave the Saudis good reason once again to appreciate their often-strained special relationship with the US.

The Saudis also carried their campaign on to the diplomatic stage. Prince Saud trotted the globe pressing the international community to agree to sanctions against Iran for its failure to accept the UN's call for a ceasefire – Security Council resolution 598. In August, the Kingdom started to urge other members of the Arab League to break off relations completely with Iran. The pressure exerted on Syria, Iran's only consistent Arab ally although a major recipient of Saudi aid, was particularly intense. Many Western observers thought they detected a new assertiveness in Saudi foreign policy, which has often seemed to move passively with the Arab consensus.

Behind the stalking horse of the call for a complete rupture with the Iranians, what the Kingdom was in fact trying to do was to fashion a new Arab consensus, backing it and Kuwait against the threats emanating from Iran. The result was on display at last November's Arab summit in Amman, and it was – by the Arab League's normally fratricidal standards – impressive.

Syria's President Hafez al-Assad was induced to swallow his pride and sit down with his bitter foe, Saddam Hussein of Iraq. More importantly, he was also forced reluctantly to agree that other Arab states could renew relations with Egypt, ostracised since its 1979 peace treaty with Israel.

To Saudi Arabia's disappointment but scarcely to its surprise, the Syrian rapprochement with Iraq has proved ephemeral. But Egypt's partial readmission to the Arab fold is likely to endure, and the significance of this for the Gulf states, and especially Saudi Arabia, should not be under-estimated.

The Kingdom, despite its wealth, has always been conscious of the vulnerability entailed by its relatively small indigenous population, its large empty territory and its large number of foreign, especially Arab, residents. And ever since the late President Anwar Sadat's separate peace with Israel, the Saudis had felt dangerously exposed, caught in the cross-currents of heavy American criticism for their failure to back Camp David and equally heavy Arab (and Iranian) censure for being closely allied with the US, Israel's principal paymaster. Now Egypt is back as a psychological counterweight to Iran, and the Saudis can breathe a little more easily.

What Egypts's rehabilitation will mean in concrete terms is less clear. Persistent rumours of a deal whereby Egyptian troops will be stationed in the Kingdom in return for hefty cash payments from Riyadh are certainly false: the Egyptians have no stomach at present for such a foreign adventure, and the Saudis are unlikely to welcome a large Egyptian presence on their soil unless the worst comes to pass and they become embroiled in a confrontation with Iran. Following President Hosni Mubarak's tour of the Gulf in January, however, military co-operation between Saudi Arabia and Egypt is likely to grow, with the prospect of fresh Gulf investment in the Egyptian arms industry (specifically in the Arab Military Industries Organisation, which was set up in 1975 to harness Gulf oil money and Egyptian expertise) and the possible stationing of more Egyptian advisers in the Gulf.

The fact that Egypt is no longer officially a pariah could also have implications for the Arab-Israel conflict. It has certainly made it easier for Arab moderates to co-ordinate their responses to the latest US peace initiative.

The question now is how Saudi Arabia can avoid a further damaging confrontation with Iran this summer. On the one hand, the temperature in the Gulf war has undoubtedly cooled since last year, with Iran and Iraq concentrating on bombarding each others' cities in recent weeks rather than attacking many ships or fighting on the battlefront.

But on the other, the prospects for the hajj are not encouraging. Iran is threatening to send an even bigger number of pilgrims than normal on the hajj, carrying the same explosive mixture of religion and politics as in previous years.

The Saudis have said they will not allow marches like the one which led to last July's riot, and have vowed to set quotas limiting the number of pilgrims from each Islamic state. All the same, the security forces will need all the discipline they can muster to keep things in check.

Andrew Gowers

Superpower relations

Moves to forge new links

SAUDI ARABIA'S dealings with the superpowers appear to be slowly entering an intriguing new phase.

On the one hand, the Kingdom's special relationship with the US has emerged, battered but still solid, from the trials of recent years. On the other, Riyadh is throwing out tantalising hints of rapprochement with, or at least intense interest in, Mr Mikhail Gorbachev's Moscow. In time, though perhaps not during King Fahd's reign, the result may be a significant Saudi shift towards more balanced relations with the US and the Soviet Union.

The alliance with the US, though close for much of the last 40 years, has never been entirely free from tension. It may have become as acute as ever this month with Riyadh's evident indignation over US complaints about its secretive purchase of long-range missiles from China and its unprecedented request to Washington to replace its ambassador who had delivered a formal protest.

Over the last decade, the Saudis have, as they see it, gone out of their way to co-operate and ingratiate themselves with the Carter and Reagan administrations – using their oil power to keep prices lower than they might otherwise have gone in the early 1980s; providing financial help for what the Reagan administration regards as good political causes such as the Afghan mujahideen and the Contra rebels in Nicaragua, and so forth.

But they have been repeatedly disappointed and embarrassed by the problems they have experienced in buying arms from the US. They are also bewildered by the frequent twists and turns of American foreign policy, and harbour severe doubts about the long-term reliability of the US as a partner – in this respect, the Iran-Contra affair was a serious blow to the Saudis.

The US, for its part, has been infuriated in the past by the Saudis' failure to put their muscle behind American Middle East peace initiatives (of which the Camp David accords are the most obvious example). Some officials and legislators are constantly irritated that Riyadh refuses to bring its security co-operation with the US into the open by providing base facilities for American forces. Residual suspicions linger of Saudi oil power as a malign force.

Some of these frictions have been eclipsed in the past year. Saudi Arabia has, for example, quietly but firmly endorsed Kuwait's decision to seek naval protection for its oil tankers and the associated US military build-up in the Gulf.

The Saudis are pleased, too, to have been fully consulted in recent weeks on the Arab-Israel peace plan advanced by Mr George Shultz, the US Secretary of State.

But it would be wrong to think that the Saudi doubts about American constancy or even-handedness have been banished. Riyadh last autumn pressed Washington to do more to protect freedom of Gulf navigation, arguing that by escorting only US-flag vessels the US Navy had succeeded in concentrating attacks on other tankers, including those belonging to Saudi Arabia. The request was politely rebuffed, and the Americans have since slightly reduced their naval presence in the Gulf. And the Saudis still worry about the prospects in the event of an end to the Gulf war and a subsequent withdrawal of the US fleet.

Above all, the key problem in the relationship – the Arab-Israel conflict – continues to fester, notwithstanding Mr Shultz's efforts. To a man, Saudis believe that the Palestine issue – the fate of the Palestinians themselves and the crucial question of the future of Jerusalem, Islam's third-holiest site – lies at the root of most of the Middle East's current troubles. As Americans too often fail to appreciate, there are distinct constraints on Saudi Arabia's ability to parade its friendship with Israel's chief financial and military supporter.

These concerns have in the last few years caused the Saudis to seek stronger trade and political relations with the European Community.

But there is also a great deal of talk in the Kingdom these days about taking the process two steps further by resuming formal relations with the Soviet Union – suspended in 1938 – and opening ties with China. Trade and other contacts with the Soviets have been intensifying, with Prince Saud in Moscow for his first visit in five years earlier this year. The Kingdom's links with China were highlighted last month by the news that Peking has been supplying the Saudis with its CSS2 missiles which have the range to hit in Israel. There seems a strong prospect that diplomatic relations might be established in the near future.

Religious traditionalists are fiercely opposed to relations with the atheist regimes in Moscow and Peking and the Al Saud's suspicion of the Soviets remains strong, especially in the light of their Afghan adventure. But many educated Saudis argue that broadening the Kingdom's links in this way would enhance its international influence.

AG

Royal family politics

United they stand

IN TIMES of trouble, the Saudi royal family can be counted on to close ranks. Of the few acknowledged certainties about the secretive Al Saud, that observation stands out as a truism.

It would be remarkable if such a powerful and diverse clan of more than 4,000 people did not encounter its share of rivalries and rows. "Of course, there's always competition within the family for popularity and so forth," said one young prince. But when the going gets rough, the sons and other relatives of the late King Abdul Aziz know their first priority is to stick together.

So it has proved over the past year, and especially since the events at Mecca last summer. In confronting the Iranian challenge and the Kingdom's other tribulations, the family is united as firmly as ever behind the Kingdom's senior triumvirate – King Fahd, Crown Prince Abdullah and Prince Sultan. What is more, there have been intriguing signs at the top itself of a smoother division of labour, if not of real power.

Diplomats and other analysts who practise Al Saud-watching – a political science rivalled in obscurity and subtlety only by pre-glasnost Kremlinology – are focusing these days on the role played by Crown Prince Abdullah bin Abdul Aziz.

Officially the Kingdom's First Deputy Prime Minister and commander of the important National Guard, Abdullah has been venturing out on to the international stage in recent months to a greater extent than before. He paid his first official visit to Washington last October at the invitation of Vice-President George Bush.

In November he represented Saudi Arabia at what for him was the more familiar forum of an Arab summit in Amman. And this June he will be in Britain for his second official visit.

All this is important, not just because Abdullah will one day be king, but also because there have long been rumours of rivalry between him and the Al Fahd – the full brothers of King Fahd.

But the fact that Abdullah, who has long been a very important figure in domestic terms, is now also emerging into the international limelight may suggest a conscious effort on his and the family's part to ensure that the Kingdom's succession to King Fahd is seamless. Whatever the problems in the past and the private squabbles in the present, there can be little doubt that the ranks of the Al Saud will stay closed behind Abdullah, too.

So what kind of man is the Crown Prince, and what kind of king will he one day make?

Those who have met him say Abdullah, who is just two years Fahd's junior, is a very different personality indeed. An austere, seemingly rather severe but actually quite gentle man with a wedge-shaped black beard, he casts himself as a traditional bedouin leader with close links to the all-important tribes of Saudi Arabia.

This partly reflects his temperament and his background: his mother came from the Shammari tribe, a large group from the north of the Kingdom. His favourite pastimes are also quintessentially traditional: hunting and horse racing. (Abdullah is passionately interested in bloodstock and is chairman of the Riyadh Equestrian Club).

His image is only fitting given his role as Commander of the National Guard. This is a largely bedouin force fiercely loyal to the Al Saud which acts as a paramilitary counterweight to the army and is charged with sensitive internal security duties. Abdullah's position, which he has occupied since early 1963, has given him a pivotal role in resolving a number of the most serious crises the royal family has faced in recent decades: the trouble between Crown Prince Feisal and King Saud in 1963-64, for example, and the seizure of the Grand Mosque in Mecca by religious zealots in 1979.

Abdullah, who speaks with a stutter, sometimes strikes foreigners at a first meeting as a faintly unimpressive man. But those who have seen him with his constituents, as it were, say this is deceptive and that he is actually a formidable political leader.

As Crown Prince, his official duties have tended to be somewhat ceremonial, perhaps akin to those of a vice-president in the American system. But he has also assumed special responsibilities in the Kingdom's foreign policy, cultivating links with Syria and other Arab states.

One of his wives is said to be of Syrian extraction, and he is known to have close ties to Syrian President Hafez al-Assad's brother Rif'at. This is probably why he was assigned to last November's Amman summit, in that as a plain-speaking friend he would find it easier to spell out Saudi Arabia's wishes to the Syrian leader. It is also assumed to be why he absented himself from the Kingdom instead of acting as host for the Prince and Princess of Wales in 1986: Britain had broken relations with Syria not long before, creating something of a conflict of interest for the Crown Prince.

Outside the Arab world, however, Abdullah is not widely travelled. Unlike Fahd, he speaks no English. Given the fact that more Saudis are staying at home these days for study and for holidays, this may make Abdullah a king in tune with his times, just as his relatively ascetic reputation would fit in well with Government calls for belt-tightening.

It does not mean that he knows nothing of the world. On the contrary: diplomats report that in the last couple of years, his knowledge of foreign affairs has increased both in volume and subtlety, and he handled sensitive policy questions with aplomb in Washington last October.

But his background and experience may well have implications for the policies the Kingdom will pursue during his reign. The Crown Prince, for example, is likely to place more emphasis on the Kingdom's role in the Arab world than his predecessor. He also has a reputation for being less keen than Fahd on the Kingdom's special relationship with the West. He has certainly been known to state his views on the shortcomings of Washington's Middle East policies with vigour on occasion, and the most influential of his aides – Abdul Aziz al-Tuwaijiri, assistant deputy commander of the National Guard – is said to be highly critical of Britain.

One European diplomat said: "Let us say that there are other members of the royal family who see a greater automatic overlap

Crown Prince Abdullah bin Abdul Aziz

between Saudi interests and US interests than Abdullah does."

It would be wrong to conclude, however, that Abdullah is likely to steer the Kingdom sharply away from the US. After all, a large team of American advisers has been helping in the reorganisation of the National Guard, demonstrating that Abdullah appreciates the need for US assistance in the Kingdom's security.

Two big questions surround Abdullah and the eventual succession. The first concerns his health: two years ago at the age of 63 he had a minor heart attack, though he is believed to have made a good recovery since.

The second and potentially more serious question revolves around his likely freedom of manoeuvre as king. For if and when he assumes power, Abdullah will be surrounded by members of the Al Fahd in influential positions: Prince Sultan, the Defence Minister; Prince Nayef, the Interior Minister; and Prince Salman, the powerful Governor of Riyadh, for example. This leads some observers to speculate that he may find himself somewhat isolated as king, with many of the real levers of power out of his grasp, and that ructions may result.

On balance, though, precedent suggests that the traditions of deference to rank and of family unity and consensus are much more likely to prevail. After all, the royal team now running Saudi Arabia has been together for longer than virtually any other collective leadership in the world.

AG

Prince Talal has unusually outspoken views

A dose of strong medicine

PRINCE TALAL bin Abdul Aziz is, to put it mildly, an unusual member of the House of Saud.

A half brother of King Fahd, he has the distinctive features of the Kingdom's founder and many of his sons: the hawk-like nose, the fierce looking mouth, the soulful eyes. Where he differs from other senior members of the Royal Family is in his views and, more importantly, in the fact that he chooses to express them in public and to the Western press.

Talal, 56, believes in liberal democracy and the creation of a constitution for Saudi Arabia; he thinks the Kingdom should have full diplomatic relations with the Soviet Union; that it should allow women more of a role in society; and that the Government should take a more decisive stand in reconciling the demands of progress with the requirements of religious tradition.

In themselves, these views are not dissimilar to arguments often expressed in private by members of the Saudi middle class, intellectuals and technocrats. What sets Talal apart is the fact that – with the licence attached to his position in the family – he is able and willing to articulate them openly. By the same token, he is allowed little influence and is viewed with the utmost suspicion by many other senior members of the Al Saud.

The prince's outspokenness – and the wariness with which he is treated by his brothers – derives in large part from his background. A Government minister and senior diplomat in the 1950s, he became a pivotal figure in an episode which the Kingdom would rather forget: the crisis surrounding the reign of his half-brother King Saud.

Talal was the extravagant and incompetent monarch's Finance Minister for eight months in 1961. After quarrelling with Saud, he went into exile in Europe and eventually in President Nasser's Egypt, and started mounting outspoken attacks on his family's rule.

The Prince, a rather sad-looking man with a judicious but vigorous manner, has undoubtedly mellowed with age. He has been rehabilitated in the Kingdom, and has carved out a role for himself since 1980, first as a special envoy for Unicef, then as president and founder of Agfund, a body which channels Gulf money to UN development organisations.

But his views, expressed through an interpreter despite his fluent English, are still strong medicine in a country which overwhelmingly prefers private consultation and consensus.

Take the issue of women, for example, one of Talal's favourite hobby horses. The prince argues that the education of large numbers of women without conceiving for them a role in society beyond the home is likely to create ructions in the future. While conceding that the position of Saudi women will always be different from their counterparts in the West, he says: "The mere existence of 800,000 female students in the educational system of this country could have the impact of an explosion if it goes uncared for. We should really start planning for how these women can play a role within the Saudi society upon their graduation."

The point here, he says, is not to make revolutionary changes but to move cautiously and gradually with the times. "When King Saud announced the introduction of female education, crowds came all the way from Qassim (a town north of Riyadh) to protest about it. I might tell you now that Qassim enjoys the highest per capita level of girls' education in Saudi Arabia. This is how time can play its role in such introductions.

"Also, the entire society was against women driving cars. Now in the desert and on the farms, women do drive. So what I'm saying here is that the wheel is starting to spin. All it needs is

Continued opposite

Andrew Gowers on defence spending cutbacks

Shopping decisions delayed

LIKE EVERY other aspect of Government spending, Saudi Arabia's defence budget is beginning seriously to feel the pinch of recession.

For a number of years defence – always the highest of the Kingdom's priorities – had been spared the worst of the cuts inflicted on other sectors, accounting for up to a third of the national budget. In the last decade well over $150bn has been spent on building military facilities such as the garrison towns dotted around the extremities of the Kingdom, and on buying weapons.

But this year, although defence's share of overall spending is projected to rise to 36 per cent, its actual allocation on paper is being cut by a full 16 per cent (in practice by somewhat less since defence spending was below budget in 1987), to SR50.8bn. That is still no mean sum by any standards especially since spending over the last few years means that a good deal of the military infrastructure and big ticket items of equipment that Saudi Arabia needs are already in place.

But the cutback does carry disturbing implications for the Kingdom at a time when the pressure to continue upgrading and broadening the range of its weapons systems is undiminished, and the demands of recurrent expenditure on things like maintenance, training and salaries are increasing. Prince Sultan bin Abdul Aziz, the energetic Saudi defence minister, and second in line to the throne, is in the unaccustomed position of having to think carefully about spending priorities.

"The old days when the government could buy the latest and best without hesitation are gone, and there are definitely some programmes that are feeling the pinch," said one Western expert.

In the first place, the Kingdom still has a heavy financial commitment to projects commissioned in earlier years. Spending on some of the big existing programmes such as France's FFr14bn "Sawari" contract to supply frigates, support vessels, helicopters and training, is naturally declining in any case as they move towards their final phases. A major modernisation of the National Guard – the largely bedouin force commanded by Crown Prince Abdullah bin Abdul Aziz – is also at an advanced stage.

But other priority projects such as the American "Peace Shield" plan to provide the Kingdom's integrated air defence system and the £5bn purchase of 72 Tornado fighters plus training aircraft and associated weaponry from Britain (known as "Al Yamama") continue to absorb a large chunk of resources.

The Saudis now have 20 Tornados. But even here there are financing difficulties: the fall in oil prices has repeatedly disrupted the barter arrangement under which the aircraft are being paid for.

The effects of Saudi Arabia's new enforced thriftiness are much more apparent in its other arms buying. The Kingdom still has a shopping list which would be the envy of most of the world's military establishments, a set of requirements enhanced by last year's escalation in the Gulf War and worsening relations with Iran. But it has introduced a lot more competitive bidding for contracts, and in many cases it has delayed key procurement decisions, evidently for financial reasons.

The only big new project with strategic significance which the Kingdom came close to approving last year was the long-discussed scheme to build a network of underground oil storage caverns. A technical agreement was signed last August between the Saudi Ministry of Defence and two Swedish Government agencies, which will provide consultancy services for the project, expected to be commissioned from Sweden's ABV Skanska construction groups.

Items the Saudis would like but have not yet decided to buy include:

● **Submarines** The Kingdom invited bids from six European countries including Britain's Vickers shipbuilding and engineering and a French consortium led by Thomson CSF and Direction des Constructions Navales – for the supply of six to eight submarines plus bases and support facilities worth a total of about $4bn in late 1986. But persistent speculation last year that a deal was in the offing remained just that, and military observers have now concluded that the plan is being moved to the back burner.

'The old days when the government could buy the latest and best without hesitation are gone'

● **Mine hunters** After the ballyhoo about Iranian-laid mines in the Gulf last summer, Riyadh asked Britain's Vosper Thornycroft, Intermarine of Italy and a French-Belgian-Dutch consortium to tender for a contract to supply eight such vessels possibly worth £250m to £300m. Although this plan was said at the time to have higher priority than the submarines, experts are beginning to wonder whether the Saudis still see the need to be so pressing, given that no mines have been discovered for months.

● **Tanks** A major order, possibly involving hundreds of tanks may be somewhat closer than the naval projects. Four countries submitted their vehicles for trials in the Kingdom last summer, and observers in Riyadh report that the choice appears now to have narrowed to the Abrams M-1, manufactured by General Dynamics of the US, and the Osorio EE-T1, built by Brazil's Engesa. The Saudis may want to have some of each given the difference between the sophisticated M-1 and the lighter Osorio.

● **Aircraft** In the long run the Royal Saudi Air Force is known to be interested in purchasing many more American F-15 jet fighters, of which it already has 60 and is preparing to take another 12 as "attrition stock" under a $1bn deal struck with the Reagan administration last year. In view of the recurrent troubles created in the US congress over aircraft sales to Saudi Arabia however, this plan may well turn out to be a hostage to politics as well as money.

Prince Sultan regards obtaining the most up to date weaponry as crucial to his forces' posture of deterrence. As one Western expert put it, possession of an ultra modern armoury "sends a message to Saudi Arabia's neighbours".

The Government also sees itself as having to deal with a bewildering range of actual or potential threats which call for a variety of quite different forms and strategies of defence. These range from heavily armed Iran and Iraq, both of which have been threatening at one time or another, to the unstable Yemens on its southern land border. Slightly further afield, there is constant worry about Israel, whose warplanes made regular unauthorised flights over Saudi territory and which has recently been making thinly-veiled threats to destroy Riyadh's recently-acquired Chinese missiles.

All this makes the task of building an appropriately equipped and trained military trebly difficult, especially in a country with a small indigenous population like Saudi Arabia's. The pressure to recruit skilled and other manpower to operate the equipment and fill the garrisons is increasing all the time.

The need for ordinary soldiers was highlighted last December when Saudi Arabia and Pakistan – evidently for political reasons concerning Pakistan's relations with neighbouring Iran – decided not to renew the agreements under which around 10,500 Pakistani troops were stationed in the Kingdom. At least 7,000 of them, principally from an armoured brigade at the northwestern base of Tabuk, have gone home. Despite rumours that other foreign troops were being sought to replace them, the army seems determined to fill the gap with Saudis, though this will take some time.

Training poses at least as serious a problem. There is a limit to the speed at which any military can absorb new equipment.

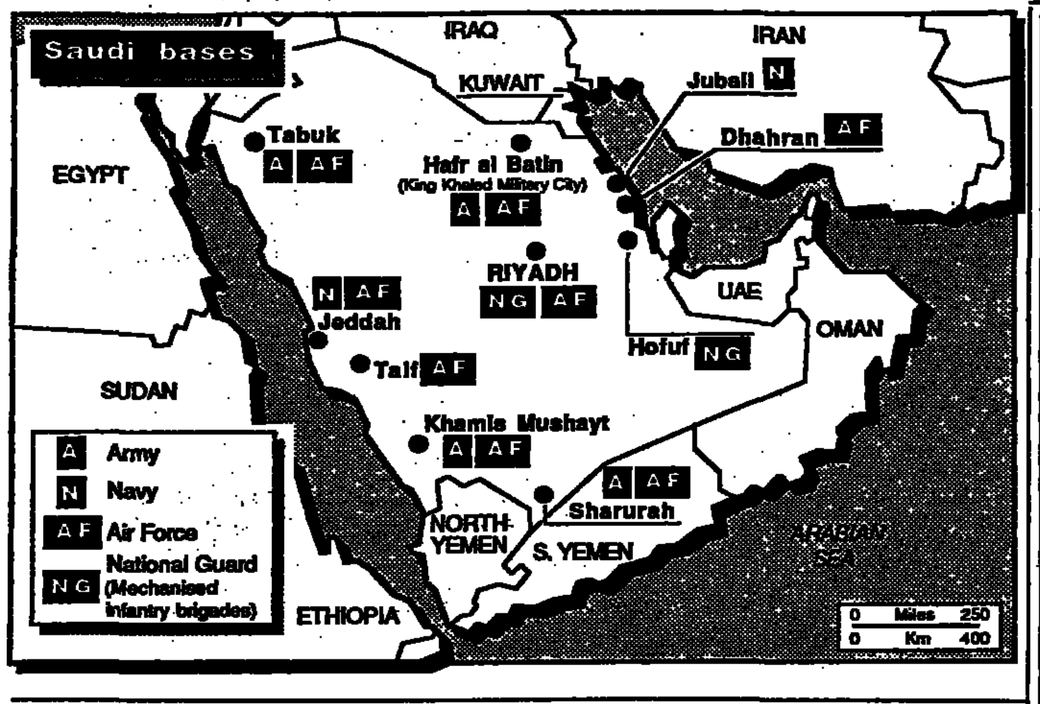
In Saudi Arabia's case the pace of procurement has been breakneck and training is now running to catch up. But the effort is complicated by political problems the Saudis have encountered in procuring the weapons they need from the US, which has forced them to diversify purchases and in the process to create something of a patchwork quilt of equipment which will be hard to integrate into a workable defence system.

Pressures on the military budget can only make this process more drawn out, although in many respects this may provide a welcome breathing space for the armed forces to come to terms with their new equipment.

The best case in point is the air force, on which the Kingdom has in the past tended to concentrate resources and effort. This had made geographical sense in that airpower provides an effective, first line of defence over such a large empty territory against more populous adversaries. The Royal Saudi Air Force – regarded as a prestige employer in comparison say with the Army – has made considerable advances in recruiting and training the necessary skilled personnel, and vast sums have been devoted to aircraft purchases. The air defence force, now a separate branch of the armed forces, has also been making good progress.

But it is in the air sector, too, that the biggest procurement problems have been encountered. The sheer diversity of aircraft now in the Kingdom's possession would stretch any relatively new air force's capabilities.

It thus seems certain that, even in this crucial area, the Kingdom will remain dependent on its sizeable number of foreign advisers.



Outspoken Prince Talal

Continued from p2

time to adjust itself and get going."

The same goes, Talal says, for rising education in general – which he believes is bound to lead to pressure for greater political participation – and for the overall question of reconciling modern development with tradition. "It's a very difficult problem, but we can actually work out a solution ... there have been lots of achievements in this sphere that have been accepted in one way or another. All it needs is time – you cannot do this on an instant basis. We have to handle this with wisdom and patience, but also with a decisive stand every now and then, because that will give a push really to introduce the unusual to the traditional."

Talal shies away from any direct criticism of his powerful brothers.

But his words seem to imply a belief that the Government is not doing enough to resolve Saudi Arabia's political and economic dilemmas, and that this is contributing to the Kingdom's current malaise.

With characteristic contrariness, Talal says bluntly that the oil boom, and the pace of change it unleashed, was "a catastrophe" for the Kingdom. But he suggests that the ensuing recession ought to offer it a chance to put its house in order.

"This recession is not as bad as it sounds," he says. "If we knew how to manage our business here we might even live comfortably with the recession and with the resources available."

A case in point is the issue of bank interest, which religious leaders insist is outlawed by the Koran: "Here there are two views. One says interest is illegal and the other says it's legal. The one which says it's legal, which is the correct one, is shying away from the incorrect one. When he founded the Kingdom, King Abdul Aziz, who was known for sticking to the Sharia [Islamic law] and the Moslem religion to the fullest, accepted the establishment of banks in Jeddah."

This is a recurrent Talal theme: reference back to the attitudes of his father. He deploys it on another controversial issue which pits liberals against traditionalists: that of re-establishing formal diplomatic relations with the Soviet Union.

"(We have) special relations as you know with the West, and particularly with the US, and I approve of that. But I must also emphasise the importance of moving towards the other superpowers.

"The founder of this country, King Abdul Aziz himself, who is known better than any one of us for sticking to Islamic traditions, had relations (with Moscow) until 1938, so there are no political or other obstacles as some would like to claim."

Looking out at the Kingdom's immediate neighbourhood, the Prince strikes a very gloomy tone. He believes that, however much it is in need of economic and political co-operation, the Arab world is likely to remain deeply divided for the foreseeable future as a result of "the foolishness of some Arab leaders"; and that there is precious little that Saudi Arabia can do about it beyond trying occasional mediation between states.

Worse, he warns that there are dangerous undercurrents of extreme fundamentalism throughout the region which arise from people's "despair about their regimes, the systems they are living under and the social codes they are experiencing"; and that failure to achieve collective peace between the Arabs and Israel could lead to disaster.

This is a litany which must run through the minds of many Saudis occupying more influential positions than Talal, in their more pessimistic moments. But it is not one that most other sons of King Abdul Aziz would dream of spelling out in public.

AG

The economy continues to contract, reports **Andrew Gowers**

Caught between a rock and a hard place

ONE HAS to sympathise with Saudi Arabia's economic planners as they wrestle with a recession that appears to be outlasting their worst expectations.

Only 12 months ago, after their two most testing years since the current recession began, the authorities were beginning to show signs of qualified optimism. "It is not unrealistic to believe that the requisite downward adjustment in the Saudi economy may have been completed," ventured the Saudi Arabian Monetary Agency, the Kingdom's central bank, in its 1986 annual report. With oil prices stabilising around $18 a barrel, "it is believed that the economy may start an upward movement during the fiscal year 1987".

One year on, even this cautious prognosis appears to have all but evaporated. The economy continues to contract, and with oil prices under renewed pressure in the first quarter of 1988, an end to the decline is not yet in sight. To make matters worse, policy-makers have been embroiled in a series of humiliating rows over planned measures to raise revenue or cut spending. These have left an overall impression of deep confusion at the highest levels of Government.

Certainly, the Kingdom is through the worst, as Sama says. The situation now is nothing like that which prevailed in 1985 and 1986, when oil prices and Government revenues plummetted as the Kingdom and other oil producers battled for market share.

In 1986 Saudi Arabia's income from oil exports fell by nearly 28 per cent to SR88bn, little more than a quarter of the peak attained four years earlier. Its gross domestic product dropped by 12 per cent after a 13 per cent decline the previous year. So uncertain was the outlook that the Government was in the invidious and unprecedented position of being unable to announce a budget.

In the business community, the mood was one of almost unrelieved gloom. Construction activity – the hardest hit of all sectors, reflecting the fact that the Kingdom's infrastructure is largely complete – dropped by 20 per cent, and contractors owed billions of dollars by the Government suffered mounting payment delays. Overstocked and overextended merchants competed to unload their inventories in a sluggish market. There was a rash of bankruptcies, bad debts and commercial disputes. A number of foreign companies operating in the Kingdom cut their losses and went home.

Last year gave both the public and private sectors an opportunity to recover their poise, as the pace of contraction slowed. Comforted by Opec's December 1986 price and production pact, the Government presented a budget providing for stable spending financed by another sizeable drawdown on the Kingdom's foreign reserves.

Those merchants that remained in business after the previous year's bloodbath reaped a significant improvement in profit margins and began to restock. Though few new Government projects of any significance were initiated, payment delays were reduced, with a judicious release of Government funds towards the end of both 1986 and 1987. Businessmen in Jeddah reckon that delays – though still endemic – are down to an average of four to six months now, compared with periods of up to two years in 1986.

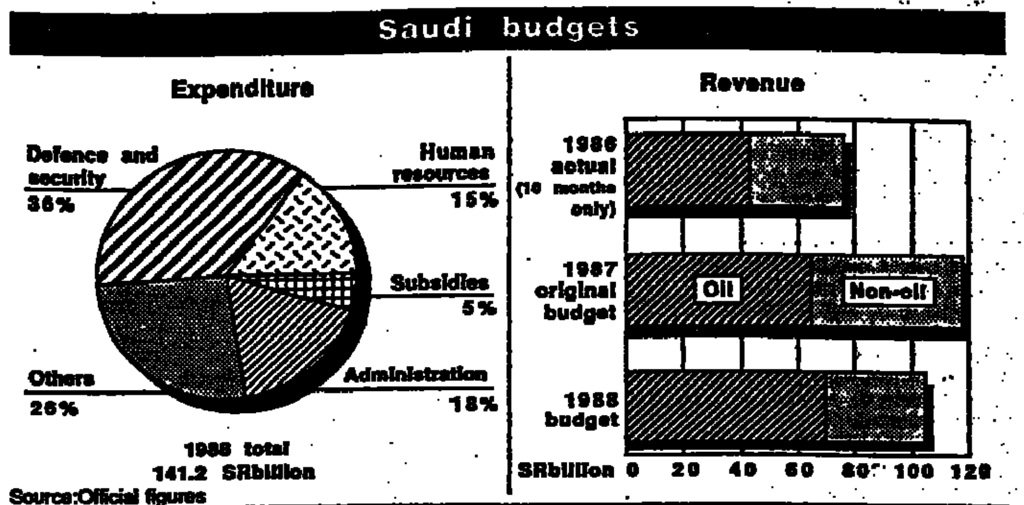
The authorities also moved to improve the machinery for dealing with the growing number of disputes about commercial matters and about bank interest which were clogged up in the system. Straightforward commercial disputes, rather than being handled by part-time courts in the Ministry of Commerce, are now being sent to a body known as the Grievance Board, which has more staff and is expected to speed up procedures considerably. Sama set up a special committee to deal with questions of bank interest, which was at least taken as a hopeful sign by the banking community.

Nevertheless, the more overtly optimistic expectations fostered in 1987 have been severely dented by the events of the last few months, and in particular by the controversy surrounding the Government's budget for 1988. In short, the Kingdom's economy remains caught between a rock and a hard place, and the squeeze is, if anything, tightening again this year.

The rock is the continuing strain on public sector finances, which account for around 70 per cent of the Kingdom's gross domestic product and thus remain the principal motor of economic activity, and the difficulties the Government has encountered in raising extra revenues. The hard place lies in the private sector, which is still not showing sufficient confidence or inclination to take up the running, as the Government would like it to.

Private investment in the Kingdom has been falling in recent years, though at a slower rate than public investment. For example, the number of licences issued by the Government for industrial ventures dropped from 320 in 1984 to 194 in 1986.

Mr Mohammed Aba al-Khail, Finance Minister



Source: Official figures

Businessmen report difficulties in identifying viable manufacturing projects given the relatively small size of the Saudi and Gulf Co-operation Council markets and the relatively high costs of operating there. They complain that in the most promising potential area for investment – petrochemicals and their downstream derivatives – the Government, through its majority ownership of Saudi Basic Industries Corporation (Sabic), has a heavy hand, and is not allowing the private sector access to feedstock at advantageous prices. The general climate of business confidence is not improved by the banks' continuing trouble with bad debts and interest.

The upshot of all this is an atmosphere of uncertainty among the Kingdom's policy-makers and businessmen which the turbulence over the budget has done little to resolve.

To be fair, the Government has made strenuous and fairly carefully-calibrated efforts to adjust to the current period of much-reduced revenues. It has slashed spending on new projects, reduced subsidies on things like food and petrol, and cut salaries and benefits for its employees.

At the same time, for obvious political reasons, it has been anxious to limit the effect of the cut-backs on ordinary Saudis. To insulate the economy to a degree from the downturn in revenues, it has drawn heavily on its overseas reserves. Western diplomats in Riyadh estimate that as a result of running fiscal deficits for the last four years in a row, the Kingdom's reserves are down to anything between $60bn and $90bn from their 1981 peak of more than $130bn.

Foreign exchange expenditure – on imported goods and services – has borne much more of the burden than spending at home.

But, as the Government is well aware, these policies on their own are not likely to be sufficient to keep the budget afloat through the present period of flat international oil prices, especially if (as many oil companies expect) that lasts until the second half of the 1990s.

In the first place, recurrent expenditure – especially on such items as civil service salaries – has been rising as a proportion of the total public sector budget, and it will be much more difficult to make further cuts without causing pain.

Second, the reserves are not infinite, and would have fallen further but for fortuitous movements in the international capital and currency markets. For example, since the Reagan Administration moved to freeze Libyan assets in the US in 1983, Saudi Arabia has accelerated the diversification of its investments into currencies other than the dollar – especially the D-mark. It has thus benefited from the sharp appreciation of the mark against the riyal, which is linked to the US currency. Equally, the fact that it has a large stake in the US bond markets helped to offset the damage inflicted on its equity portfolio by last October's Black Monday.

GOVERNMENT BUDGET

	Budget 1986	Budget 1987	Actual 1986*	Actual 1985/86**
Total revenue	105.3	117.3	74.3	131.5
Total expenditure	141.2	170.0	136.7	181.5
Deficit	35.9	52.7	62.4	50.0
Reserve drawdown	5.0	52.7	62.4	50.0
Borrowing	30.0	-	-	-

*10 month fiscal period from March 11 to December 31 1986. Source: SAMA Statistical Summary. **Provisional. Source: SAMA Annual Report

The point is, though, that as it has drawn down on its reserves (to the tune of a projected SR52.7bn in 1987 alone) the Government's investment income has been falling quite sharply – leaving the budget ever more vulnerable to the vicissitudes of the international oil market.

These themes are neatly illustrated by the 1988 budget, announced by King Fahd on December 31. Once again, overall spending is reduced - by a sweeping 17 per cent from 1987 allocations and by about 12 per cent from actual expenditure last year.

New projects have been allocated only SR9bn out of total project spending of SR50bn, suggesting that there is not much more room for manoeuvre in this sphere. Meanwhile "administrative and other" expenditure – although likewise suffering a cut this year – is swallowing an increasing proportion of the total, up from 15 per cent in 1985/86 to around 18 per cent in 1987 and 1988. To demonstrate the seriousness of the need to control Government costs, the King put a freeze on all new civil service appointments, which have hitherto been a principal source of employment for Saudi university graduates.

On the revenue side, non-oil income is projected to have fallen sharply this year. Although investment revenue is not quoted as a separate item in the budget and there are no precise figures for previous years, independent analysts reckon it may account for only SR18bn in 1988, compared with around SR40bn in 1984/85.

What is more, the budget estimate for oil revenues this year – at SR69bn – now looks like turning out to be over-optimistic. The figure appears to be based on production at Saudi Arabia's full quota of 4.3m barrels a day sold at official prices – and market prices are now several dollars below this level.

It is not that the Kingdom is even remotely approaching serious financial trouble. As one Western diplomat put it: "Many countries would simply love to have Saudi Arabia's problems."

But clearly these trends are not sustainable in the medium to long term without additional fiscal policy adjustments. The Government has concluded in principle that something has to give: either it raises more revenue, or the need for further cuts becomes more acute. But as it has discovered, putting that principle into practice is no simple matter, even in a country with as much spare disposable income as Saudi citizens appear to have.

Last year, King Fahd appointed a special committee, chaired by Prince Sultan, the Defence Minister, to study ways of raising extra income for the Government.

The result of its deliberations was a balanced package of measures introduced with the budget. Expatriates working in the Kingdom were to be asked to pay income tax for the first time since 1975. Saudis and foreigners alike faced surcharges on the cost of medical services, water and electricity as well as a stamp duty on real estate deals and an airport tax.

An across-the-board customs tariff of 12 per cent was slapped on imports (with the exception of selected food and pharmaceutical products), rising to 20 per cent for a range of locally-produced goods. And to fill a large part of the deficit, the Government laid plans to borrow for the first time in 25 years by issuing medium-term bonds to the tune of SR30bn.

This is where the trouble began. As soon as the income tax plan was published in the Kingdom's official gazette, there was uproar among expatriates and among Saudi businessmen, who feared an exodus of skilled manpower. The protests went straight to the King, and within five days he was forced to rescind the measure – thus eliminating a potentially valuable source of non-oil income conservatively forecast to yield about SR1.75bn in its first year.

The new utility and property fees were next in line. If foreigners were to be spared the pain, the lobbyists argued, then so should ordinary Saudis. The King duly withdrew some of these measures too.

How this fiasco could have come about remains a matter for rich speculation in the Kingdom. King Fahd himself emerges from it remarkably well, being judged to have displayed political wisdom in revoking the unpalatable charges. Many Saudis, however, blame the Finance Minister, Mr Mohammed Aba al-Khail, and his staff for what they believe to have been a display of poor judgement, preparation and presentation.

Although the eventual need for some form of taxation is broadly accepted by educated Saudis, they believe it should be introduced gradually – and certainly not in the punitive and confusing form, based on tax rates suspended in 1975, that was attempted this year. Rightly or wrongly, there are strong suspicions among expatriates that the tax actually represented a crude attempt to drive some of them out, in line with the Government's goal of accelerated "Saudisation".

Confusion has also been apparent in policy concerning expenditure cuts. Several weeks ago, Mr Saleh al-Omair, the Vice-minister of Finance, said in a BBC interview that the heavy subsidies the Government provides to support the price of home-grown wheat – which have produced the surprising spectacle of significant Saudi wheat exports in recent years – would be scrapped after the next growing season. The result, again, was uproar from the vested interests, and an embarrassing statement from the Royal Court that Mr al-Omair was not authorised to say such a thing.

What all this illustrates is the extreme sensitivity aroused by attempts to tamper with the extensive Saudi welfare state, and even with policies widely recognised to be wasteful, in the cause of good housekeeping.

In the short term, until the Government finds an acceptable way of bringing in taxes or fees, it also means the Kingdom will be all the more dependent on funds raised by the planned bond issues. At the time of writing, the detailed nature of these debt instruments had not been published. But they are expected to be issued in the first instance to specialist institutions such as the General Organisation for Social Insurance (GOSI) rather than to individuals or even to banks.

Borrowing of this kind is, after all, not free from controversy of its own associated with the religious objection to interest payments.

If the Kingdom does eventually decide to tap the banks, nobody expects it to have any problems raising the funds it needs by this route. Private sector liquidity remains abundant, and bond issues might persuade the banks to repatriate some of their substantial foreign assets.

In turn, a successful fund-raising effort along these lines would do a lot to shore up sagging confidence in Saudi economic management.

New bank: al-Rajhi

Primitive but big and strong

IF SAUDI Arabia's banks are a bit like trumpeting elephants, then the new bank, ex-money exchanger al-Rajhi Banking and Investment Company (Arabic) is a woolly mammoth. Compared with the Kingdom's modern banks, al-Rajhi is a sort of throw-back – a bit primitive, perhaps, but also big and strong.

Last month the Kingdom's largest money exchanger, al-Rajhi Company for Currency Exchange and Commerce, changed from a billion dollar firm exchanging currency and writing drafts for expatriate workers, to the Kingdom's twelfth commercial bank. In the process, it is adopting the new name. Its owners wanted to call it an Islamic bank, but dropped the term "Islamic" at Saudi Arabian monetary agency (Sama) insistence.

Although al-Rajhi is now a bank, and is the third largest after National Commercial Bank (NCB) and Riyad Bank, it is still considered backward by many of the Kingdom's bankers.

It does not have computers in every branch; its head office is dowdy and nondescript; and it employs few, if any, expensive expatriates.

But al-Rajhi also enjoys several strong advantages. It is not burdened with large numbers of bad loans. It has the largest retail banking network in the Kingdom, with 230 branches compared with NCB's 175 or so. Al-Rajhi's employee costs are low compared with other banks'. Al-Rajhi is trusted as an Islamic bank by Saudi and expatriate Moslems. And it has the largest no-cost non-interest paying deposits in the Kingdom, totalling anything from SR4bn to SR15bn.

What this means is that the secretive al-Rajhi family has arrived on the Saudi banking scene in a very strong position. One cannot help thinking that the four brothers who own the firm, Saleh Abdul Aziz al-Rajhi, Abdullah al-Abdul Aziz al Rajhi, Sulaiman al-Abdul Aziz al-Rajhi and Mohammed al Abdul Aziz al-Rajhi, would prefer to remain a money exchanger. Public annual reports go against the grain.

The firm has always been traditional. The founder of the firm is from the conservative central Nejd region of Saudi Arabia. At one time he and his brother managed two separate offices. When one needed to ship a bar of gold to the other, he would go to the airport, give the bullion to a passenger and say, "a man named al-Rajhi will pick this up from you at the other end". The al-Rajhis never lost a bar of gold that way.

The firm grew to be one of the Kingdom's top five out of almost 30 money exchangers operating in the Kingdom. Operating as Islamic people's banks, these companies had more convenient hours than banks, and captured up to 80 per cent of the remittance business of the Kingdom's almost 4m expatriate workers.

The big al-Rajhi company proved so successful that family members founded three similarly-named firms. Younger brother Abdul Rahman al-Rajhi set up Alrajhi Commercial Group for Currency Exchange and has also applied for a banking licence. A nephew, Abdullah Saleh al-Rajhi, founded a firm that went bankrupt due to speculation in precious metals. A third firm is based in Dammam.

Abdullah's bankruptcy was the catalyst for Sama's clampdown on the money exchangers, and led to the transformation of al-Rajhi into a bank. The process was begun in 1983, but has dragged on for five years. To become a bank, the brothers have reluctantly agreed to go public.

The firm will be capitalised at SR750m. Al-Rajhi's assets are probably worth over SR16.6bn according to balance sheets published several years ago. The stock flotation is expected to take place in May after Ramadan. Of the 7.5m shares, 4.275m will go to the four brothers, and 3.225m shares will go to the public. Observers say that the flotation will be oversubscribed due to the firm's reputation for good profits.

Finn Barre

Stock market

Regulatory framework in limbo

TO JUDGE by recent events, Saudi Arabia's stock market is developing not with a Big Bang but a whimper.

On May 11 of last year, the authorities opened a formal stock trading floor for the first time. Less than one month later, the experiment was suspended and the trading hall was closed with no official explanation beyond a rather lame citation of "technical problems". There could have been no starker illustration of the hesitancy with which the Saudi Government is approaching the issue of share trading.

On the face of it, a fully-fledged stock market would seem the most logical thing in the world for the Kingdom. It has a large surplus of liquidity sloshing around in the banking system; proven public enthusiasm for share issues, with a total market capitalisation of about SR65bn and about half a million Saudi shareholders; and a Government which is, in theory at least, anxious to see the private sector play a greater role in the economy.

Yet the market in existing stocks remains terribly thin, with around 400 blocks of shares changing hands in an average week.

In part, this reflects the overall economic climate, of which Saudi share prices have tended to be a reasonably accurate barometer. But it is also a function of the structure of share ownership in the Kingdom. Only 38 per cent of the shares of joint stock companies are held by individuals and thus freely available for trading; the rest, as in some other Gulf states, is held mostly by the Government.

Of that 38 per cent, big blocks of shares are concentrated in relatively few hands. Although large numbers of Saudis have tried the stock market at different times – mainly attracted by cheap share offerings – more than half the purchases of these issues tend to cash in their hefty capital gains soon afterwards. Those left holding large chunks have been reluctant to sell in the flat or declining market of recent years.

Nonetheless, these facts are merely the symptoms of a deeper malaise in the operation of the Saudi market. The real problem is that the authorities have yet to hit on a structure which would contain the right mix of flexibility and regulation and enable an active market to take off. In their search for the magic formula, they have stifled the informal trading system which existed before without creating anything viable to put in its place.

The previous system was admittedly unsatisfactory in the extreme. Shares were bought and sold through a number of unlicensed and unregulated individuals, who at the peak in 1981 were handling volumes of up to 150,000 transactions a month. Although

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Banks are reporting higher profits, though some still have bad loans

Loan disputes board set up

"THERE ARE already clear signs of progress and we are looking forward to a much better year in 1988," says Saudi Arabian monetary agency governor Mr Hamad Sayyari.

Several of the Kingdom's 11 commercial banks have reported higher profits, although others are still slogging through grisly loan portfolios. The general improvement can be attributed to several factors: increased liquidity, a new mechanism for collecting bad loans, and a general upturn in the Kingdom's economy.

The new year is also seeing several changes. The 11 banks are being joined by a new bank, the massive but unsophisticated al-Rajhi Banking and Investment Corp (known for short as Arabic). The banks' automated teller machine (ATM) networks may be combined this year, and the Kingdom's money exchangers continue to expand their capabilities.

For most of the banks, attention focuses on the new banking disputes committee established by the central bank, Sama. The three-man panel consists of deputy minister of commerce for technical affairs Dr Muhammed Hassan al-Jabr, who is qualified as a lawyer. The second man is Dr Ali al-Johany, a petroleum expert who is former dean of King Fahad University of Petroleum and Minerals, and Dr Abdul Aziz al-Guweis, chairman and managing director of Saudi Consolidated Electric Co (Sceco) of the central region. The committee meets from three to five times a week.

The establishment of the committee, to handle about 500 loan disputes pending in Saudi commercial courts, was announced in March 1987. The committee now has many more cases to hear than that. The reason it was established in the first place was that banks have been losing every court case they brought against borrowers.

Saudi Arabia functions under Islamic "Sharia" law, which forbids, on religious grounds, the taking or receiving of interest. The Kindom's Sharia courts have consistently ruled against the banks because of the interest question. Bankers have always complained about debtors who have the assets to pay off a loan, but use religion to avoid paying the debt.

"It's working successfully," says Mr Sayyari. "I would say it is making good progress. They have heard many cases and are solving a good many cases."

Bankers were at first worried that the panel would be overturned by Sharia courts. Thus, they were cheered when one of the first Saudi defendants came up empty-handed after appealing against a committee decision. He had made the rounds of Sharia courts, royal majlis halls, and the ministry of justice to no avail: he was always sent back to the committee. "This shows that the committee decisions will stick," said one western banker.

The banking disputes committee has been given powers to persuade businessmen forcefully to pay back bad loans. This includes extra powers to stop bad debtors from leaving the country, the power to freeze their bank accounts, attach their assets, and request government agencies to stop doing any further business with them. In a country where almost all contracts flow from the government, the last is a particularly serious threat.

The committee does not function like a western-style bankruptcy court. Instead, it tries to work out a compromise agreement which is binding between the bank and its borrower.

Some bankers are not sure how rigorously committee decisions will be enforced. But even the most pessimistic concede that the committee is here to stay.

This will help banks as they work to trim loan portfolios and boost provisions for bad loans. Many banks have cut back on the amounts being set aside as provisions, which can be taken either as a sign that portfolio quality is improving, or that banks are under shareholder pressure to show better results.

Several banks have experienced upturns in profitability. Arab National Bank (ANB), The Arab Bank joint venture, reported higher profits and more loans for 1987. However, it lowered provisions for bad loans. Albank Alsaudi Alhollandi, The Algemene Bank Nederland joint venture, reported tripled profits for 1987, as did the small Chase joint venture, Saudi Investment Bank (Saib). Citibank's joint venture, Saudi American Bank, reported its first profit increase in four years. Profits in 1987 rose 11.7 per cent to SR90m but this was partly the result of taking lower provisions.

Other banks continue to take a hammering. Saudi French, which raised lending in the early 1980s as the economic downturn became obvious, reported a profit fall of 32.1 per cent to SR64.4m, even though provisions for bad loans were trimmed 59.9 per cent. Saudi Cairo Bank, the Banque du Caire joint venture, finally printed its 1986 results by year-end.

One factor that is contributing to higher banking profits is a significant increase in domestic liquidity. Sama statistics show that in 1986, total deposits fell 0.7 per cent to SR770m. The next year, deposits rose 7.5 per cent – SR8.55bn. Sama said that in 1987, domestic liquidity as measured by currency outside banks, demand deposits, and time and savings deposits, was up by 3.8 per cent.

"I can guarantee that no money that was outside has re-entered the kingdom," says Mr Maan al-Sanea, managing director of the advanced money exchanger, Ahmad Hamad Algosaibi Brothers. "But since the October crash of the stock markets, the money has been sitting at home."

This rise in deposits boosts balance sheets because religious conviction persuades many customers to deposit their funds in non-interest-bearing accounts. Some bankers estimate that much as 60 per cent of deposits earn no interest.

The banks are also benefiting from an economic upturn, says billionaire Suliman Olayan, who is also chairman of Saudi British Bank (SBB). "By the end of 1986, the worst of the bankruptcies were over," he said.

"Banking still has a hangover of bankruptcies .... Some are resolved, some are thorny ones and are being addressed, and some could have been avoided."

The problem of bankruptcies and rescheduled loans is large and the Kingdom's banks still feel they have inadequate legal recourse in seizing collateral. One step forward was the ruling that banks may once again take possession of mortgages.

Progress in the Saudi banking sector has not been made solely on flushing the bad debt out of loan portfolios. Sama is nearing the point where it will tie the various banks' ATM systems together in a joint network. Sama is also permitting banks to place their ATM machines in independent locations, away from bank branches. Samba and National Commercial Bank (NCB) operate these stand-alone machines. SBB is moving fast in this field as well.

The Kingdom's banks have been admitted to the Society for Worldwide Interbank Financial Telecommunications (Swift).

The biggest change in terms of overall banking has to be the arrival of the Kingdom's newest bank, the converted money exchanger, al-Rajhi Company for Currency Exchange and Commerce, known as Arabic (see opposite page).

Meanwhile, the banks are undergoing a metamorphosis of sorts. Five of the banks have increased their capital. Four of them increased capital by transfering funds from general reserves. Shareholders got free shares. Riyad bank quadrupled its shares, while Saudi French, Samba and ANB doubled theirs.

Saudi Cairo, however, doubled its capital through a capital infusion of SR300m from the government-owned Public Investment Fund. The troubled bank had already doubled capital from SR150m the previous year. The PIF investment cuts Banque du Caire's participation to 20 per cent.

Saudi Cairo is still trying to shake off the effects of a precious metals speculation scandal that sent the bank manager to prison and cost the bank over $100m. The next general manager brought in to clean up the bank made a series of questionable loans exceeding his authority. The bank is now being headed by former SAIB general manager, Mohammed Daghistany.

"Saudi Cairo proves one thing, and that is that Sama will not let a Saudi bank fail," observed one banker.

Finn Barre

Confused stock market

Continued from p4

this broking fraternity became increasingly concentrated and sophisticated in the early 1980s, the possibilities for abuse were obvious.

With this in mind, the authorities – principally the Saudi Arabian Monetary Agency – moved in 1984 to regulate the market. It tried to remove brokerage activities from the traditional brokers and put them in the hands of the banks. Under the watchful eye of a supervisory committee, the banks were supposed to match buyers and sellers, and to carry out settlement and re-registration of shares. Forward dealings and postdated cheques were banned, and the old brokers were expected simply to fade away. The goal was to create a solid market without excesses of volatility and speculation.

It looked fine on paper, but in practice the new system was a *disaster for those who wanted to* see a more active market. The process of buying and selling shares through the banks tended to be inordinately time-consuming. The banks, meanwhile, were not allowed to act as market makers but simply as intermediaries, and they had little incentive to devote effort to the business since they were not allowed to charge more than one per cent by way of commission. Flows of information were inadequate, both on share prices and on the companies being traded.

Worse, about one third of all transactions bypassed the banking system altogether. The traditional brokers, which continued to exist, were able to exploit a loophole in the rules permitting companies to carry out their own share registration procedures for direct transactions between buyer and seller.

This confusion compounded the market's recession-induced gloom and, as a result, trading activity slumped in the months following the introduction of the new system.

The introduction of a trading floor last year was designed to provide the market with new impetus and combat some of these problems. In essence, the system was designed to work like an auction: the banks would each send two representatives to the trading hall with the buy and sell orders they had received, which would be posted on a board. The loophole about direct registration of share transfers was closed, and the brokers were thus supposedly eliminated once and for all.

It was undoubtedly an improvement. Price variations were largely ironed out, and delays in carrying out transactions greatly reduced.

But many of the underlying structural difficulties remained. Banks were still not allowed to take positions in shares, thus denying the market a major potential source of liquidity. Their commissions were unchanged.

With the demise, at least for now, of the trading floor, the market is almost back to square one. Trading continues at a low level, and, until the last month, new issue activity had been dormant since 1985.

But the regulatory framework and market structure within which investors and traders will have to work – including such questions as the future role of banks and brokers – are in limbo. "Nobody knows what's going to happen to the Saudi stock market" said one frustrated expert.

The caution the authorities are displaying can be explained to some extent by their deep-seated fear of the sort of wild speculative spree which preceded Kuwait's Souk al Manakh stock market crash in the early 1980s. But financial experts such as Dr Abdul-Aziz al-Dukhail, head of the Consulting Centre for Finance and Investment, which has been responsible for many of the Kingdom's company flotations, believe the Kuwaiti crisis should no longer be used as an excuse for delay in developing the Saudi market.

"A stock market is not a luxury, but an essential feature of any country, especially of one where the private sector is being encouraged to take on additional economic responsibilities," he wrote recently. "Savings have to be mobilised and efficient markets have to develop to channel the savings of investors to domestic investment opportunities."

Many of the Kingdom's leading businessmen agree. Mr Suliman Olayan, perhaps the best known of them all, appreciates the need for a cautious, evolutionary approach on the part of the authorities. But he says an efficient stock market would help to enhance foreign as well as domestic investment in Saudi Arabia, in that it would provide would-be investors with "an exit route" to liquidate their holdings if they desired.

Andrew Gowers

Debt rescheduling

Who owes what to whom

BANKS IN Saudi Arabia are finding progress in resolving the saga of bad debt and corporate rescheduling which has burdened their balance-sheets in recent years to be frustratingly slow. Saudi and foreign banks are involved in rescheduling almost SR4bn of loans to 10 separate companies.

The biggest single debtor is Ghaith Pharoun's *Saudi Research and Development Corp (Redec)* which imports bulk cement, owns the Saudi Hyatt Hotels, and is involved in contracting and other activities. Manufacturers Hanovers Trust Co, leads a group of foreign banks to which Redec owes SR1.25bn – a rescheduling agreement was signed in 1987.

The second-biggest debtor, the *Ali and Fahad Shobokshi Group*, is a contracting company that owes SR1.2 bn. It has not signed a rescheduling agreement after four years of talks with a group led by Bankers Trust Co.

Arabian Auto Agency (AAA), the former Chrysler agent in the central region, has been declared in default on loans worth SR700m. Saudi British Bank found the rescheduling fell apart over a disagreement on how to deal with one of AAA's agricultural holdings.

Al-Hamrani Enterprises of Jeddah owes SR600m to a group of banks led by Gulf International Bank (GIB). The agreement was signed in August 1987 and is holding together.

Arabian Bulk Trade (ABT) is next with SR500m owed to a group of banks led by Citibank. Two of ABT's biggest profit-earners were bulk cement and barley. But within the past four months, the government has cut the barley import subsidy by two-thirds, and implemented a 20 per cent tariff on cement. The new cement tariff is not going to help Redec, either.

The *Soger* group – its last big construction project was a desalination plant in the Asir region – is negotiating rescheduling of SR373m with Lloyds bank.

Arabian Homes, owned by Pharoun's son, is negotiating the rescheduling of SR350m with American Express Bank. Arabian Homes built expensive western-style rental communities just in time to see the Saudi real estate market suffer from four years of falling rents.

Abdullah Fouad and Sons Co is negotiating SR240m with Citibank. Abdullah Fouad's problems have already led to the firm selling its interest in a supermarket chain.

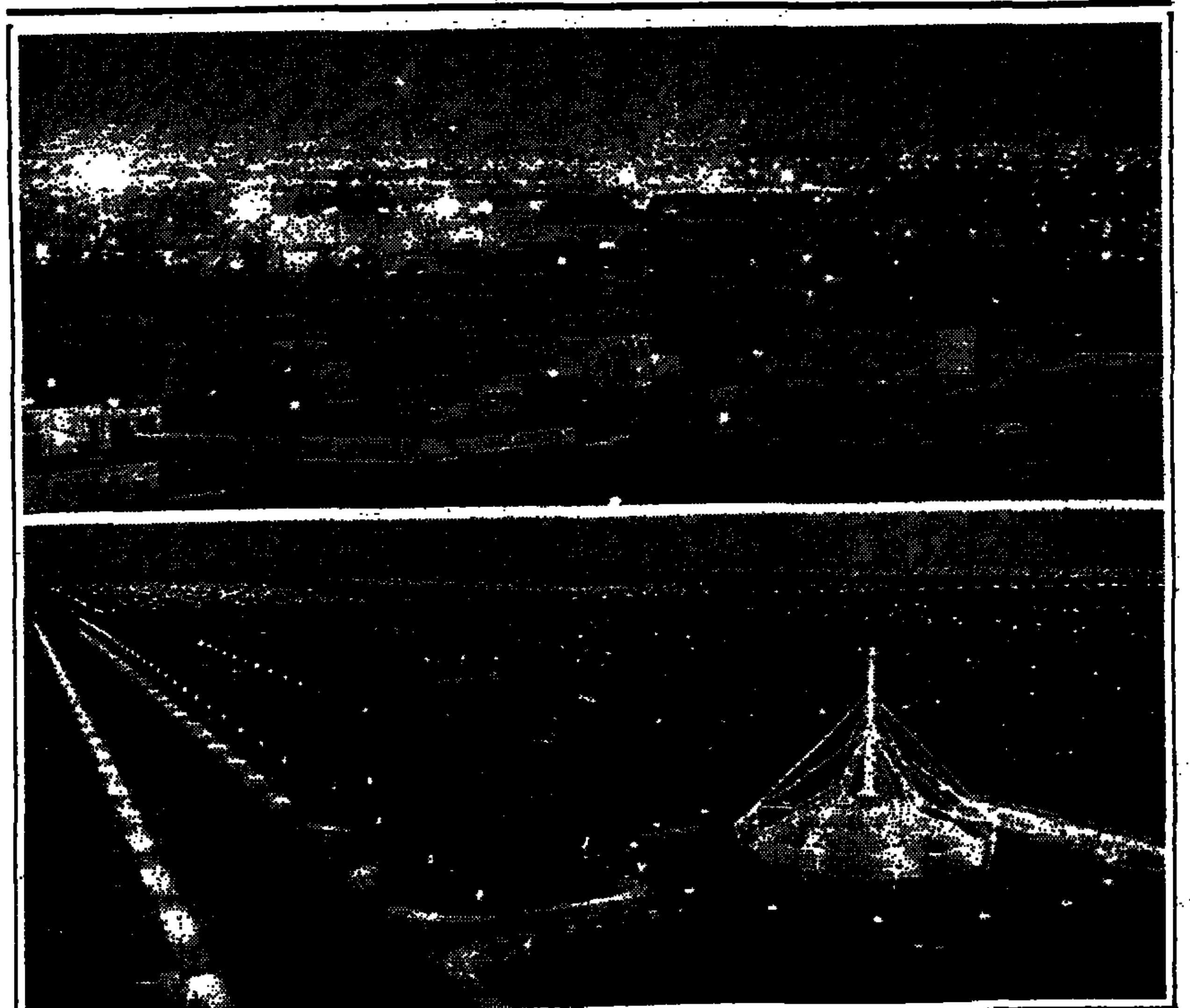
Saudi Arabian Agriculture and Dairy Co (Saadco) was founded to be the Kingdom's largest dairy operation. Today the company's April 1986 rescheduling agreement on SR215m is in tatters. Saudi Investment Bank (Saib) finds that the Saadco owner has reneged on his promise to invest new capital.

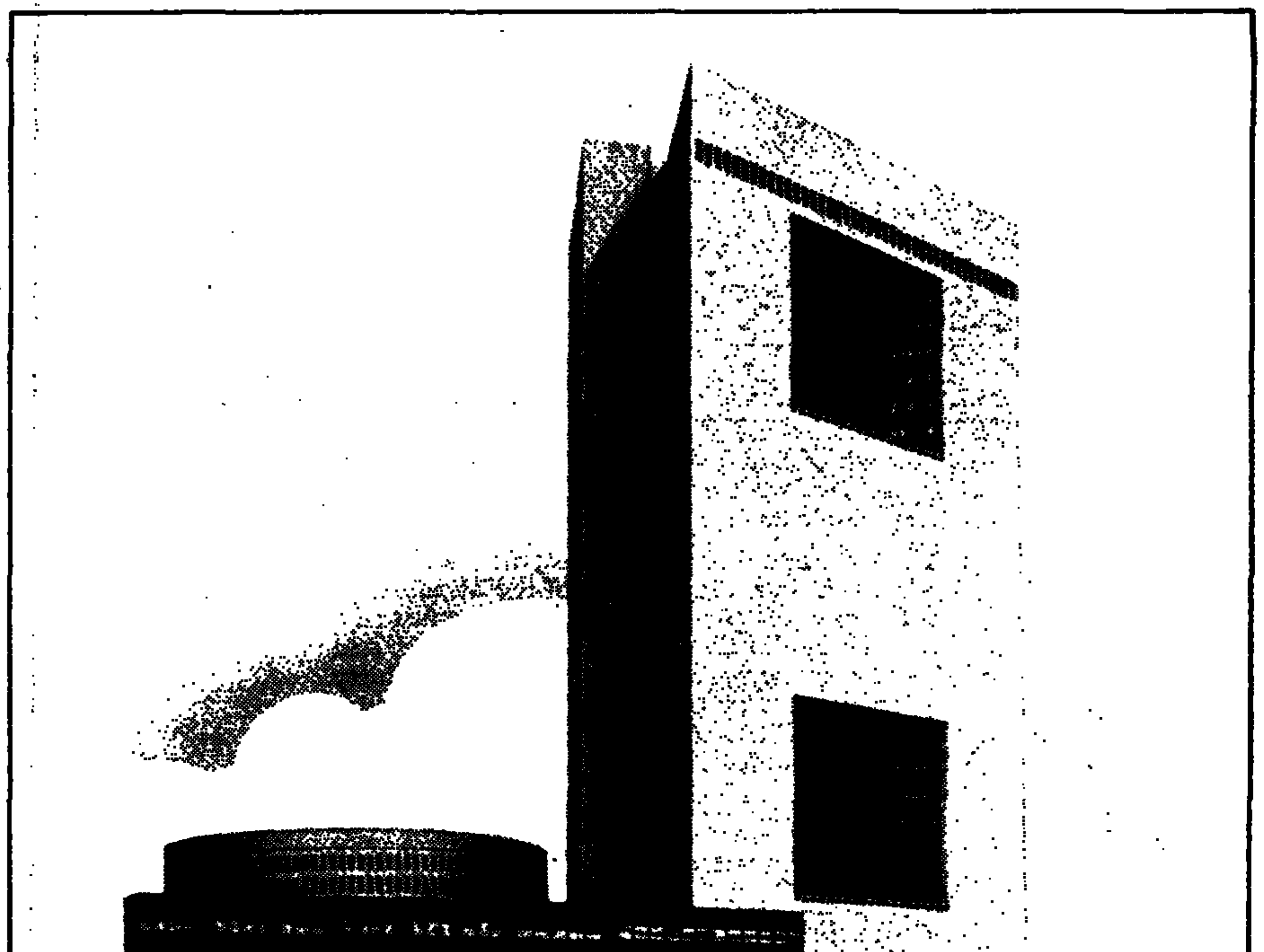
A Turkish construction joint venture, *Enka Arabia*, is liquidating while owing banks led by al-Bank al-Saudi al-Fransi a total of SR175m. Enka entered the Kingdom's construction market late when margins were not as good, and payments were late.

Al-Mirabid Establishment is negotiating on SR140m with a group of banks led by American Express Bank.

In all these cases, banks are frustrated to find that they can do little to force payment of debts. At least one of the biggest debtors is believed to own millions abroad, but his creditors are restricted by the law, which favours the debtor. This is a common banker complaint and one that is unlikely to be solved soon.

Finn Barre





Andrew Gowers on plans for an unaccustomed shake-up in the oil industy

Reorganisation will need time and patience

MR HISHAM Nazer, who took over from Sheikh Ahmad Zaki Yamani as Saudi Arabia's Oil Minister 18 months ago, is reputed to be an ambitious man, and a patient one.

For much of his 30-odd years in the Saudi bureaucracy, he had hankered after the prestigious oil portfolio. And now that he has got it, he has set out on what he hopes will be a sweeping industry reorganisation. He wants to cut costs and eliminate duplication; he has said he would like to turn Aramco, the hybrid production company which has its assets owned by the Saudi Government and which is run in conjunction with four US oil majors, into the Kingdom's "national oil company", with all the integration that that implies.

More ambitious still, he is interested in obtaining a stake in downstream operations abroad. To this end, he has embarked on negotiations with a number of foreign oil companies — principally the Aramco partners, Texaco, Mobil, Exxon and Chevron — with a view to establishing marketing and refining joint ventures, especially in the US.

It all amounts to a very tall order indeed for Saudi Arabia, which by coincidence has just celebrated the 50th anniversary of the discovery of oil at Dammam. The Kingdom is not accustomed to radical shake-ups of this kind, and has hesitated in the past to follow the high-profile example of Kuwait's downstream investments overseas. By the same token, it is far from clear yet how far Mr Nazer will get.

So far, his attention has chiefly focused on eliminating the most manifest inefficiencies left over from Sheikh Yamani's time. There is no doubt that Mr Nazer inherited something of a mess.

Aramco (the Arabian American Oil Company), which is registered in Delaware though its assets have since 1980 been wholly owned by the Saudi Government, has always been run separately along Western management lines in the "oil capital", Dahran. But the distinctions between its activities and those of Petromin, the state-owned company set up in 1962 with the original aim of becoming the national oil company, have over time become blurred.

Petromin, for example, is supposed to oversee the Saudi refining industry. But of the country's seven functioning refineries, the largest — the 390,000 barrel per day (b/d) plant at the Gulf port of Ras Tanura — is run by Aramco. Petromin's role has also been eroded in recent years by the transfer to Aramco of responsibility for such important tasks as managing the Kingdom's master gas gathering system and Petroline, the 3m b/d strategic pipeline which diminishes Saudi dependence on Gulf shipping routes by carrying oil from the Eastern Province to the Red Sea port of Yanbu.

Furthermore, Petromin itself became notorious for its bad management. Mr Abdul-Hadi Taher, its former governor and a close associate of Yamani, created a bewildering proliferation of subsidiary companies. Oil industry observers in Riyadh say he ran this sprawling empire very much as a personal fiefdom, controlling everything from the details of product marketing upwards and refusing to delegate or to set up any recognisable management systems.

"They [Yamani and Taher] failed to create any institutions worthy of the name, things that could carry on after them," said one oilman with long experience of the Kingdom.

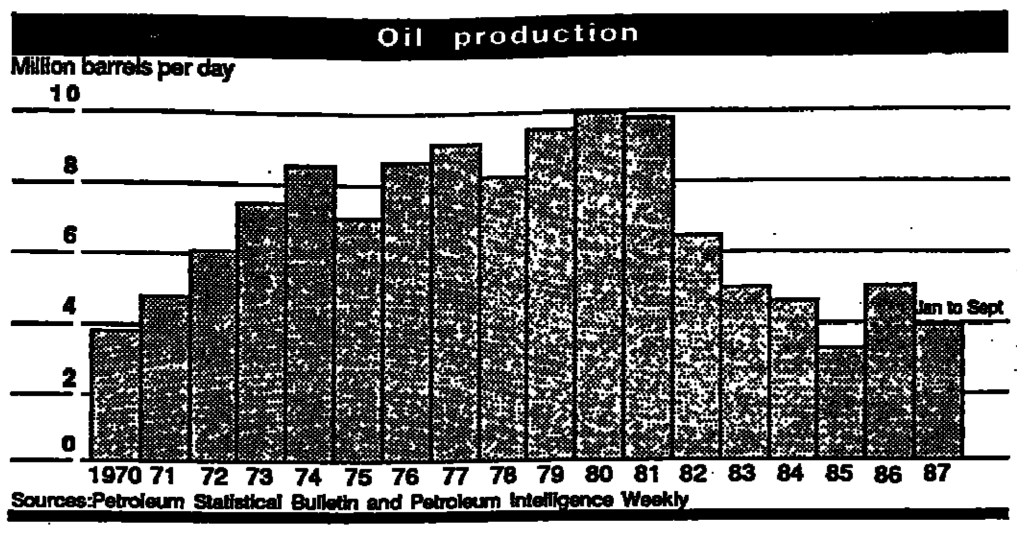
One consequence of all the confusion is that Saudi Arabia has been unable to conceive of its oil industry as an integrated system. Aramco, with a staff of about 44,000, handles production, and the Aramco partners do a good deal of the crude marketing as well as selling products from Ras Tanura. The smaller Petromin handles the Saudi domestic market, other refining and some product exports as well as a range of activities from gold mining to oil services.

'For the first time, people are having to justify themselves.'

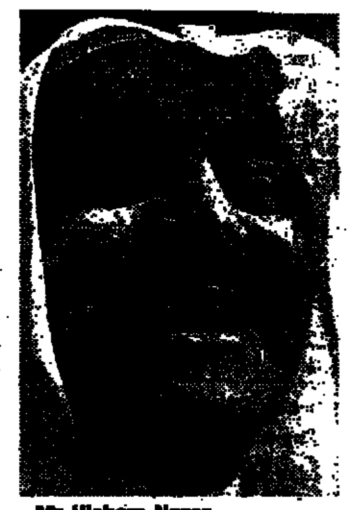
To complicate the picture further, there were a number of refining and blending joint ventures between Petromin and foreign oil companies, including the Luberef and Petrolube companies run in conjunction with Mobil, the Pemref export refinery at Yanbu (also with Mobil) and another at Jubail run with Shell.

The export refineries have generally been kept quite separate from those serving the domestic market, with the bizarre result that the Kingdom, despite its ample refining capacity, has had to import products from time to time.

Mr Nazer, who is also (at least in name) Saudi Arabia's Planning Minister and by definition of a more methodical bent, is out to change all that. He swiftly sacked Mr Taher and eased out a number of other senior Petromin managers associated with him. He has made drastic cuts in the company's workforce, especially among expatriates. He has introduced stringent budgetary controls and is eliminating waste and selling off unnecessary assets.



Sources: Petroleum Statistical Bulletin and Petroleum Intelligence Weekly


Mr Hisham Nazer

For example, Petromin used to possess about a dozen of its own planes, ranging from Fokker Friendships to private jets. If three of its managers were due at a meeting abroad, they would go in three separate aircraft. Mr Nazer has stamped on this practice and sold most of the planes.

As one foreign observer put it: "For the first time, people are having to defend what they're doing and justify their existence."

A lot of this rationalisation parallels the sort of cost-cutting that all Saudi ministries are having to undertake in today's straitened circumstances. Aramco, too, has been steadily reducing its workforce and tightening up on costs in recent years.

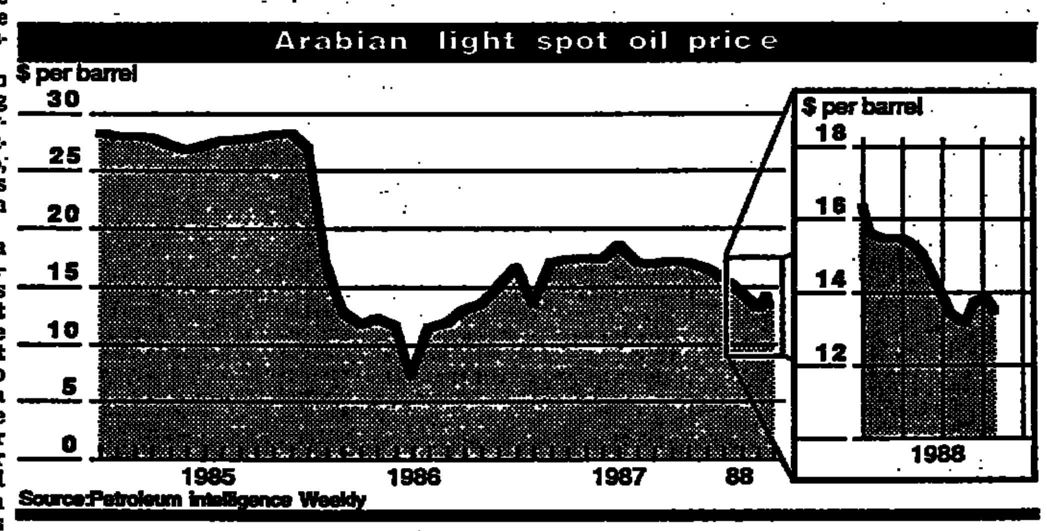
But Mr Nazer wants to go a great deal further. Since the middle of last year, he has had on his desk a report by US management consultants Arthur D Little which recommends that Petromin should be split into three separate divisions under a new holding company: one responsible for lubricants, one for domestic marketing and one for refining and export sales of oil products. The Minister is now in the process of implementing this plan, and has taken a first step with the lubricants side — although a number of questions concerning the role of foreign joint venture partners still have to be resolved.

In time, and when they are profitable, parts of Petromin may be split off and sold to the public in line with the Government's goal of privatising some state companies.

Beyond all this, the most logical as well as the most radical step would undoubtedly be to create a single national oil company of the kind that exists in many other Opec member states. Mr Nazer himself is known to favour the idea of transforming Aramco into such an entity, and ultimately of incorporating many activities now carried out by Petromin into it. In the process, unnecessary overlaps could be ironed out: Aramco's proven marketing expertise, for example, could be harnessed to sell both crude and products for export under one roof.

It is not a new idea. Suggestions of this kind have been floated since before Aramco's assets were nationalised. But as has been discovered in the past, any such attempt would be fraught with political and other complications. In the first place, although its assets are owned by the Saudi Government, Aramco is actually an American-registered company: before it could become the Kingdom's national oil vehicle, the Delaware corporation would have to be scrapped and the relationship with the US Aramco partners — which currently have seats on its board, are paid fees for their services, and have priority access to Saudi crude — transformed.

More importantly, further shrinking the role of Petromin or combining it with the more efficient Aramco would inevitably involve redundancies among the Saudi workforce — a sensitive matter at a time when the Government is trying to encourage employment of Saudis and when other job opportunities are not exactly abundant. A number of serious "turf battles" would have to be fought and won within the Government, and delicate questions of regional balance between the Eastern Province (Aramco's home), Riyadh and the Hijaz (the west) may arise.



Source: Petroleum Intelligence Weekly

That, nonetheless, is Mr Nazer's objective, towards which the splitting up of Petromin can be seen as an interim step.

The other important prong of his strategy is the plan to invest downstream. For some months now, the Kingdom has been talking to the Aramco partners about the possibility of Saudi Arabia buying into some of their refining or marketing interests in the US, Europe or the Far East.

Negotiations with Texaco on a possible Saudi interest in its US refining and distribution operations are believed to be furthest advanced, since Texaco needs an infusion of cash to help in the Chapter 11 restructuring it is undertaking as a result of its large debt to Pennzoil, another US oil company, stemming from litigation last year. According to unconfirmed reports, Texaco has offered Saudi Arabia three refineries in Delaware, Texas and Louisiana with a combined capacity of up to 600,000 b/d for something in the region of $1.5bn.

The attractions of the idea for Saudi Arabia are obvious; indeed, some educated Saudis wonder why the Kingdom did not embark on such a course years ago. A proposal of the kind was put forward in Yamani's time, but never implemented, partly because of worries about the depth of management expertise which the Kingdom could bring to such ventures.

The purchase of downstream interests would give the Kingdom guaranteed outlets for its crude at a time of stiff competition on the international market. It would enable the Saudis to gain more added value from their crude as they have done with their petrochemicals industry. Mr Nazer talks grandly of "a global sectoral integration in the energy business" which will further Saudi Arabia's desire for "stability and economic rationality in the world energy market".

Riyadh has watched moves in this direction by countries like Kuwait and Venezuela with great interest. It has noted, for example, the foothold the Venezuelans have been able to obtain in the vital US market in this way. It has also seen the difficulties Kuwait appears to be having in finding further viable marketing outlets to buy outright, which — in addition to concern about management skills — is why it is seeking joint ventures with companies with which it already has links and a certain amount of leverage.

Here, too, however, a number of questions arise. First, how is the purchase of joint venture stakes to be financed? Saudi Arabia has three obvious options: drawing further on its reserves, borrowing or paying in oil. The first of these may not be easy at the present time, with domestic spending programmes already under pressure. The second has in the past been an anathema for religious reasons. The third may not be that attractive to the foreign companies involved.

Second, it is not clear that — with the exception of Texaco, which has its own reasons — the companies themselves are terribly keen on the Saudi plan. At present, with the world awash with cheap oil, security of crude supply — the big carrot with which the Kingdom is trying to attract them — is scarcely uppermost in their list of concerns, although as a long-term goal it is undoubtedly lurking at the back of their minds.

Third, there may be political problems. Policy-makers in Riyadh are no doubt aware of the present protectionist mood in the US, and of American legislators' special sensitivity to Arab investment. The counter-argument is that giving Saudi Arabia a stake in downstream operations there would also make it "part of the system" and thus even more of a reliable supplier. But foreign oilmen in the Saudi capital still wonder whether the Kingdom — which by definition has a higher profile than tiny Kuwait — would really want to be exposed to political opprobrium in the US.

Whatever the potential pitfalls, there can be no doubting Mr Nazer's determination to make his mark. Nor should there be any question about support for what he has done so far within the Government as a whole: Mr Nazer, mindful of what happened to his flamboyant predecessor, has been extremely careful to consult King Fahd about his every move, and is not given to stepping out of line with personalised public pronouncements.

Although he had hoped that the reorganisation might be substantially completed by the end of this year, he also knows that in practice the sort of changes he favours can take an agonisingly long time in Saudi Arabia. The chances are that he will need all his formidable reserves of patience if he is to prevail.

Opec

Game plan is unchanged

AT TIMES in the last few weeks, one might have imagined that the people in charge of Saudi Arabia's oil policy were beginning to feel a nasty attack of *déjà vu*.

Prices on the spot market hit 16-month lows last month amid persistent over-supply and a revival of competitive price discounting by members of the Organisation of Petroleum Exporting Countries. After topping the oil cartel's official price of $18 for much of the second half of last year, the price of most varieties of crude was in mid-March hovering between $14 and $15 a barrel.

Could it be, some observers began to wonder, that the market was in for a re-run of the events of 1985-86, when producers engaged in a bitter battle for market share and drove prices below the hitherto-unthinkable level of $10? Could it also be that the strategy Saudi Arabia had espoused since December 1986 — that of fixing prices at $18 and keeping them there for the foreseeable future — was coming decisively unstuck?

To judge by the impressive sang-froid displayed by Mr Hisham Nazer, the Saudi Oil Minister, the answer to both those questions has to be no. Despite widespread alarm about the market fall, Mr Nazer initially came out against a production cut, and took a lot of persuading even to call a special meeting of Opec's price committee on April 9. What on earth was he up to?

The stakes for the Kingdom were, after all, scarcely lower than in December 1986, when it agreed to reinstate a system of production quotas, thus stepping back from the price war it had unleashed the previous year. Just 12 months ago, King Fahd himself went on record saying he wanted stable prices for another two years at least, and Mr Nazer has been completely identified with the $18 policy since he was appointed after the dramatic sacking of Sheikh Ahmed Zaki Yamani in October 1986.

Yet the mood in Riyadh's Oil Ministry still seems surprisingly sanguine. The official line, as conveyed to industry observers in the Saudi capital, goes as follows:

- The production quotas agreed on in December 1986 and rolled over 12 months later, remain an adequate framework for Opec, provided all members respect them.
- The recent market weakness derives from a combination of Opec indiscipline and sheer bad luck: indiscipline in the form of widespread cheating on quotas, especially by other Gulf states, in the second half of last year; bad luck in the form of an unexpectedly mild winter in the northern hemisphere, which knocked Opec's demand projections off course and left an unexpectedly large accumulation of stocks hanging over the market as spring approached.
- Both the above sources of glut will work themselves out of the system. Opec over-production is no longer rampant and, come the early autumn, oil companies will want to begin rebuilding their stocks for the winter, which should boost prices back to the target level.

Behind these soothing noises, however, lie some more hard-headed calculations reflecting the change which has come over Saudi attitudes to Opec in the last couple of years. The change dates back to Riyadh's decision to abandon its role of "swing producer" within Opec in June 1985, and it is fundamental, overriding such factors as the appointment of a new oil minister and the individual twists and turns of market strategy.

Saudi Arabia has absolutely no intention of reverting to the role of a swing producer

There are several elements to the Kingdom's overall policy. First among them is the perceived need to maintain the competitiveness of oil in the industrialised world's energy mix. As the owner of (at a conservative estimate) 169bn barrels of proven oil reserves, or 25 per cent of the world total, Saudi Arabia has a much greater interest in this than many other Opec members.

Countries like Iran and Nigeria have reserves with a relatively short life, and want to maximise the returns from their oil while they can. Saudi Arabia knows that high-price policies — such as those which prevailed in the early 1980s and provoked a scramble in the West to conserve oil and develop alternative energy sources — could easily jeopardise the market for its product in the long run.

The second prong of Saudi strategy is a desire to boost Opec's market share. This declined precipitously in the late 1970s and early 1980s, as high prices encouraged other, higher-cost producers — like those in the North Sea — to come on stream. Here, too, the Kingdom has reasoned, lower prices would in time drive out the marginal operators and place Opec back in the driving seat.

The third aspect is Saudi Arabia's desire to increase, or at least to maintain, its own share of the Opec cake — embodied most clearly in the Kingdom's decision in 1985 to abandon fixed prices and go for market share through the market-related pricing of so-called "netback" deals.

It was this market share policy with which Sheikh Yamani became particularly identified. It sent oil prices down to $8 in early 1986, caused unprecedented ructions within Opec and howls of pain among producers from Texas to Tehran, and even set the economic alarm bells ringing in Riyadh itself. Ultimately, it was one of the principal factors which cost Yamani his job, and was officially abandoned with the December 1986 Opec agreement to return to fixed prices and production quotas.

Some, possibly including Yamani himself, would argue that the aggressive policy should have been continued for some months more in order to clear out the marginal producers. A host of counter-arguments is cited in Riyadh these days as to why that would not have been politically feasible: they include concern over Saudi Arabia's ties with other important Opec producers; its worries about the implications for heavily-indebted oil states; and fear that the US might follow Japan in imposing an import fee on oil.

It would be wrong to conclude, however, that by stepping back from the brink in December 1986, and by agreeing to talk about another production cut this month, Saudi Arabia fundamentally altered its game plan. For one thing, as Mr Nazer argues, prices were fixed at a much lower level than before: "The change in the Opec price and the international value of the dollar between early 1985 and 1987 implies a very significant shift in the position of Opec and Saudi Arabia in the world oil market over this period," he told the American Petroleum Institute in Chicago last November.

The figure of $18, he said, was not plucked from the air: it was designed to be "roughly equivalent in real purchasing power per barrel terms to the average price decided upon by Opec for 1974." It was also "high enough to prevent distortions in energy investment and development and, at the same time, low enough to provide some stimulus to faster worldwide economic growth over the medium term".

Second, as Mr Nazer never hesitates to remind his listeners, the events of 1985-86 should remain as a powerful cautionary tale for the world's oil producers, whether within or outside Opec.

Mr Nazer told the Chicago audience: "These other [non-Opec] oil exporting countries have a responsibility to behave reasonably in respect of both their oil pricing and production policies if they wish to avoid a rerun of 1986 or something worse. After all, the experience of 1986 clearly demonstrated that the ultimate survivor in a wayward oil market would surely be Saudi Arabia."

But the main point is that Saudi Arabia has absolutely no intention of reverting to the role of a swing producer. It will respect its quota, but if others make the foolish mistake of over-producing, it will not cut back to make room, and if others surreptitiously shave their prices Saudi Arabia will follow suit. If the price of that is the occasional period of excessive market weakness, so be it.

Take the recent situation. Time was when the Kingdom would have responded to such a fall in prices by agreeing to bear the brunt of a further production cutback.

Instead, it has been generally producing up to its quota limit of 4.3m barrels a day (b/d) of late — sometimes a little more, sometimes a little less. To hang on to what it regards as its rightful share of key markets, it has offered market-related pricing to selected customers — principally to its four US partners in Aramco (Exxon, Mobil, Texaco and Chevron) as well as to Ashland and Marathon. Where oil has remained unsold because of a failure to extend the disguised discounts to other customers, it has been poured into the vast floating storage capacity belonging to Norbec, the Saudi Government's marketing arm.

It all amounts to a modified market share policy without the Yamani pyrotechnics — and ideally, Mr Nazer says, without the violent price fluctuations of 1985-86. It may seem at times to be the worst of both worlds — in that prices are low and production is still restrained. But in the medium to long term — and the Kingdom can afford to take the long view, as Mr Nazer emphasises — it is guaranteed to put Saudi Arabia and the other low-cost Gulf producers in a more dominant position in the market than ever.

AG

Finn Barre on the issues facing Saudi industry

Hydrocarbons still dominate

PROTECTION AND exporting are the two biggest issues facing Saudi industrialists today, as they struggle to respond to the Government's call on the private sector to play a greater part in the economy.

The government already provides ample support for industry. The Saudi Industrial Development Fund (SIDF) offers concessional loans for up to 50 per cent of the cost of a project. The Royal Commission for Yanbu and Jubail built infrastructure for major industries. Water, electricity and land are subsidised.

To encourage foreign investment, the Government established American and British offset investment programmes. The American programme is designed to offset the cost of the Peace Shield command system linking together the Kingdom's air defence network and Awacs surveillance planes. The British offset is based upon the Tornado-Hawk-Pilatus aircraft deal.

The American programme was started several years before the British programme and is farther along. It is creating joint ventures in turbine engine overhaul, airframe repair, avionics and aircraft hydraulics repair, electronics manufacture, medical supplies and biotechnology.

These are being established under the aegis of the Boeing Industrial Technology Group (BITG) which won the Peace Shield contract. Individual Saudi investors are participating through a SR111m publicly-held firm, Saudi Advanced Industries Co (Saic). The British programme is still in the formative stages and no definite projects have been named.

The largest Saudi industries at present are based on hydrocarbons, and the biggest is Saudi Basic Industries Corp (Sabic), which was established to provide the Kingdom's basic industrial foundation. Sabic companies produce steel, urea fertilizer, petrochemicals and plastics. Profits are up, but secondary downstream industries have not proliferated as expected.

Part of it is because payback on industrial investment takes longer than many Saudi investors are used to, says Dr Mahsoun Jalal, head of National Industrialisation Co (Nic), which has invested almost all its SR300m capital in industrial joint ventures.

Secondary downstream industry faces problems in procuring feedstock from either the state oil company, Petromin, or Sabic, which insist on selling all their output at world rates.

Secondary industries need a break on feedstock to surmount the higher costs of locating in the Kingdom. Prices for building in the Kingdom have come down, but a plant may still cost up to 30 per cent more than a similar one in Europe.

Sabic does not have this problem. Its low-cost associated gas

Payback on investment takes longer than many Saudis are used to

feedstock offsets the high cost of building a plant in the Kingdom. Saudi secondary industries cannot do this if Petromin and Sabic insist on selling Saudi secondary industries their output to domestic companies at world rates.

Yet if Sabic and Petromin do offer concessional pricing they may face charges by competitors that they are offering unfair subsidies. This would exacerbate Saudi battles with protective tariffs erected elsewhere.

The Gulf Co-operation Council (GCC) is holding talks with the European Community (EC) over protective tariffs on Saudi and GCC-produced petrochemicals. An initial agreement is likely to be signed this summer. The Saudis want duty-free entry into Europe.

The Saudis also face problems in the US and with Japan. Although profitable secondary industries will find it difficult without price breaks on feedstock, higher value-added tertiary investments can still make money. The irony is that if there are no Saudi investments in secondary industry, the tertiary industries will need to import secondary industry products.

Secondary industry may benefit from the Kingdom's new tariffs. At the beginning of this year, a new general tariff of 12 per cent was imposed on all imports with the exception of food and pharmaceuticals, while local industries benefit from a 20 per cent tariff. Raw materials remain duty free.

Many Saudis are still investing in downstream chemical and petrochemical companies. Crystal Pigment Co, a joint venture with Shairco, NIC, and Kerr-Mcgee, of the US, is moving ahead with a 45,000 million tonnes per annum titanium dioxide plant.

Saudi Venture Capital Group, a group of the Kingdom's richest entrepreneurs and families, is examining the possibility of building plants to make aromatics, pet resins, and maleic anhydrides. Saudi-Hydro, a Saudi-French joint venture with Total, is also planning an aromatics plant.

Saudi Arabia's lubricants industry, which has achieved a substantial degree of vertical integration, is still expanding. A new base oil refinery is planned by the Petromin-Mobil joint venture Luberef. Finished Saudi lubricants are now being exported throughout the region.

Export successes are also being scored in other light industries, such as carbonated drinks, can manufacture, circuit breakers, and cement.

Yet if some companies are building exports, others are experiencing difficulties. A changing truck market is hammering production at the Juffali-Mercedes joint venture truck assembly plant, National Automotive Industries of Jeddah.

Until the new 20 per cent tariff was announced on imported cement, the Kingdom's 10 cement producers were locked in a price war with bulk importers, such as Arabian Bulk Trade and Ghaith Pharoun's Redec. The cement companies, next to Sabic, form the Kingdom's biggest industrial sector, and are wholly private. *The producers have excess capacity*, procure almost 90 per cent of their raw materials inside the Kingdom, and have a large constituency of shareholders. They claimed foreign firms were dumping cement in the Kingdom and won their case.

But the problems experienced by some industries have not decisively harmed investor interest. *In fact, SIDF reports that loan* activity is up, especially for existing factories seeking to increase capacity or add product lines. What are the most promising new lines? The best bet is food processing because the growing agriculture sector desperately needs a processing industry, the Saudi Market is large enough to be viable, and the government is offering its full support.

Petrochemicals

World demand boosts profits

A FEW years ago, the European petrochemical industry viewed the Saudi Basic Industries Corp (Sabic) as an industrial Godzilla that would trample all before it. Today, it is viewed as just another player on the world market.

Anxiety was high when the Saudi government established Sabic to help diversify exports from oil. Sabic formed joint ventures with foreign firms to build and operate the first tier of basic downstream industries. The partners, investing in the aftermath of the oil shortages of the seventies, received half the profit, plus entitlements to Saudi crude.

Sabic expected that the plant output would provide the raw material for secondary industries that would be built by private investors. Downstream industrialisation has proceeded much more slowly than expected, but Sabic itself is a success. The company now has 14 operating plants, producing products including steel, plastic, fertilizer and petrochemicals. Output in 1987 reached 9.7m tonnes.

The surprise is that the petrochemical and plastics markets have accepted this Saudi output with so little disruption. Sabic output is higher than planned, because bottlenecks in its plants have been released. On average, production now is nearly 18 per cent higher than the designed capacity.

The reason Sabic products were not disruptive was two-fold. First, the Japanese, American and European petrochemical industries underwent restructuring and plant closures. Second, world demand for petrochemical products rose faster than anticipated. This produced a marketplace that was actually eager for Saudi petro-chemicals. Even with Sabic in the market, some firms are now considering reactivating a few mothballed plants.

This strong demand has boosted Sabic profits. Net profits for 1987 tripled from SR242m to SR1bn. Most of this, says Sabic vice chairman and managing director Mr Ibrahim Salamah, is due to increased production. Previous profit hikes occured because of

Mr HE Ibrahim A Salamah

increased production. Now, the only plant waiting to come on stream is a 500,000 tonnes per year methyl tertiary butyl ether plant (MBTE is an octane enhancer for unleaded petrol) built by the Saudi European Petrochemical Co (Ibn Zahr). Construction is also taking place on a compound fertilizer plant.

"Last year was a good year, but we expect 1988 to be as good as 1987 if it is not better, God willing," says Mr Salamah. He laid out plans that include possible construction of a polypropylene plant together with the partners in Ibn Zahr, the Eni Group of Italy, Neste Oy of Finland, and the Arab Petroleum Investment Corp (Apicorp). The plant will produce from 200,000 to 300,000 tonnes per year of polypropylene.

Sabic is an integral part of the Kingdom's hydrocarbon industry. Its feedstock is the associated gas that was formerly flared off during the crude oil production process. *It will not*, however, be part of the Minister of Petroleum Mr Hisham Nazer's oil industry reorganisation, says Mr Salamah. "I don't think this will have any effect on any of us. The reorganisation is an internal matter." Sabic's concern for 1988 will not be expansion so much as marketing.

In essence, Sabic's marketers are worried about protective tariffs in Europe, Japan, and the US. Talks are continuing between the European Community and the Gulf Co-operation Council on a trade agreement that would remove protective tariffs. The GCC includes Saudi Arabia and the five other conservative Gulf states. Sabic is a partner in several ventures in Bahrain.

The Gulf states want a free trade agreement, and would like to see the process of dismantling tariffs begin now. The EC, which is conducting the talks on a two-phase basis, wants to wait until the second agreement is signed to begin the slow process of lowering the barriers. But, according to the head of Sabic marketing, Mr Abdullah al-Nojaidi, the highest tariff barriers are in Japan, not Europe.

In the US a lawsuit over the import of a mere 10,000 tonnes of Sabic steel led to the imposition of countervailing duties on top of regular tariffs. The US Department of Commerce ruled that some of the low-cost loans and help available to Sabic were not generally available to other Saudi industries. This applies only to steel so far, but could be broadened to cover other Sabic products.

So far, industry fears over the Sabic juggernaut have proved unfounded. Mr Salamah has always contended that Sabic would only sell at world market prices, but it was not until Sabic products began moving that the industry began to relax.

"Sabic has shown the maturity of a nation that has been trading for centuries," says Mr Charles Fryer, of Tecnon (UK) which is acting as a consultant for Sabic. "They have avoided grabbing markets by cutting prices and have attained their market share by intelligent marketing."

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O&M

The ravages of sand and speed

WITH THE near-completion of Saudi Arabia's infrastructure, a new growth industry has emerged: operations and maintenance. About SR25bn is now being spent every year on O&M *contracts in the Kingdom*.

The business is lent a certain urgency by climatic conditions and the country's sandy environment, which take a terrible toll on buildings and utilities. Another factor has been the shoddy construction that characterised building during part of the boom when speed and not quality was of the essence.

The Kingdom's huge health and education facilities are also contributing to the O&M. According to the country's fourth five-year development plan, more than SR120bn is allocated for O&M, with more than a third of the sum – SR42.2bn – alone being set aside for health projects.

Although the plan's spending outlines have long since been discarded, *following* the collapse in crude oil prices and its subsequent impact on government spending, O&M's importance was still underlined in the 1988 budget which allotted SR51.1bn for capital and maintenance projects out of total expenditures of SR141.2bn.

The growth in O&M has predictably been accompanied by a burgeoning in the numbers of firms bidding for such contracts. Many construction firms have converted at least part of their operations into O&M, while many other new firms have entered the market. Mirroring the evolution of the country's construction industry, a large percentage of the new firms are locally owned and operated, especially in less technical fields where the empha*sis is on low skills and* large manpower requirements.

Municipal cleaning is one example. In the past year, cleaning contracts worth more than SR2bn have been awarded for Riyadh, Jeddah, Mecca, Taif and Dammam. Local concerns, either 100 per cent Saudi-owned or in partnership with foreign companies, have won them all. Among the most successful is the Arabian Cleaning Enterprise, a joint venture between the American Waste Management International and Prince Abdul Rahman bin Abdullah bin Abdul Rahman al-Saud which won the Jeddah cleaning award, alone worth SR580m.

Other major players include *Mawarid Services, al-Khodari* Establishment and al-Hesab Establishment.

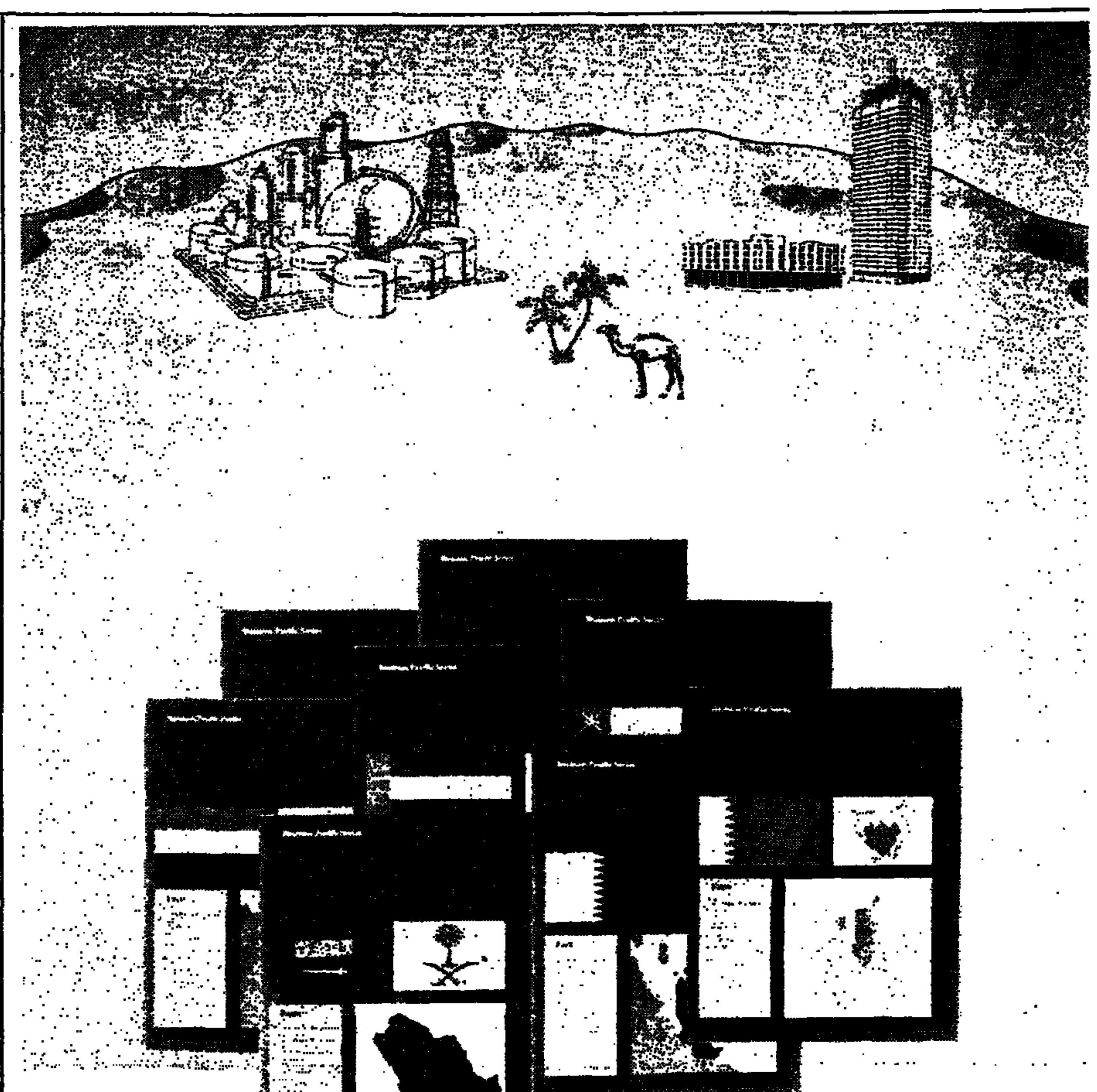
Health is another sector which is increasingly coming under the sway of local firms, with or without foreign participation. This is in marked contrast to the late 1970s when the Kingdom's public health sector was the domain of the US's Whittaker Corporation. *Today, local firms* have turned the tables.

One of the more successful has been the General Arabian Medical and Allied Services (Gama) which has snared a number of hospital O&M contracts, including the Ministry of Defence King Abdul Aziz hospital in Tabuk. Indicative of the recent success of local firms was Whittaker's decision to pull out of its formerly dominant *subsidiary. Today,* Whittaker Saudi Arabia is owned by the local al-Mawarid.

The only field which has remained dominated by foreign firms has been the high-tech sector concerned with the operation of the Kingdom's sophisticated telecommunications network and defence plants. However, that is expected to change, especially as the Kingdom's infant high-tech industry gets a needed boost when the nascent industries envisioned under the Tornado offset and Peace Shield offset programmes became reality.

In all sectors, competition remains fierce. For example, the winning contract bid for the Riyadh cleaning contract in 1987 was 40 per cent lower than the winning bid the first time around. Although part of the reason is that the first contract called for the construction of worker housing, the lower bid is also indicative of the downward wage spiral among the Kingdom's expatriate workers. To remain competitive, many O&M firms have sought to retain a competitive edge by replacing more expensive Pakistanis, Filipinos and Indians with "cheaper" Bangladeshis and Sri Lankans.

Michael Andrews



The Kingdom is one of the world's biggest labour importers — yet there is unemployment

Not enough top-notch jobs for the young

WHEN THE Kingdom's foreigners-only income tax was dropped days after it was announced in January, some of the happiest people in the Kingdom were not expatriates, but Saudis. Foreign bankers, doctors, and other professionals began handing in resignations the minute they heard of the graduated tax. Saudi hospital administrators, bankers, and businessmen saw their staffs disintegrating before their shocked eyes, and petitioned King Fahd to hold back on the tax.

The measure may have effectively promoted the Government's goal of easing out foreigners, but its effect was too drastic. The King cancelled the tax, and indirectly confirmed that the Kingdom's most strategically sensitive import is not food, medicine, or modern weapons, but people.

The Kingdom's Saudi population numbers slightly over 6m and employs from 3m to 3.5m aliens. A total of up to 4.5m foreigners live in the Kingdom. Their jobs range from those of aircraft mechanics to checkout clerks in supermarkets. From the army to the home, expatriates are ubiquitous.

Saudi Arabia is one of the world's biggest labour importers even though it is trying to involve more Saudis in its economy. Saudis are assuming roles as varied as heart surgeons and pilots, but there are only so many top-notch jobs. The jobs that are available, such as street sweepers, construction workers, or clerk typists, do not appeal to young Saudis.

Thus the Kingdom's labour situation contains a tremendous contradiction: the Kingdom needs large numbers of foreigners to keep things going, yet its own people suffer from unemployment.

The Government was formerly the employer of last resort. Almost all Saudi university graduates were guaranteed jobs in the civil service. The civil service payroll has grown so large that it consumes a significant portion of the Kingdom's expenditures. Lower oil revenues have forced the Kingdom to cut civil service pay. Overtime and travel restrictions, and a hiring and promotion freeze has also been implemented.

The only government service that maintains most if not all of its benefits is the military. King Fahad himself has called on Saudi youth to take advantage of the benefits of the military. "How can they say the government is not offering them a job if they can join the military?" said one observer.

The Government's long-term goal is to encourage the hiring of more Saudis by the private sector. Generous training schemes subsidise firms that hire and train Saudis. Five per cent of the workforce of any firm with 100 or more employees must be Saudi.

But the process has been slower than expected, for several reasons. One is the unrealistic expectations of young Saudis. During the boom, many Saudis would go straight from university to owning their own business establishment. After seeing this, many young Saudis have little patience with working their way slowly up the corporate ladder.

The older pre-boom generation had slogged along as workers in the Arabian American Oil Co (Aramco) or other organisations before the flood of oil wealth transformed the nation. The "boomers" do not share that experience, and are often called "spoiled" or "pampered" by the older generation.

Another stumbling block to Saudisation is pay. Saudi workers command salaries as high or higher than those of western expatriates. Few Saudis could hope to support themselves on wages paid to Pakistanis or Bangladeshis. These same low wages, however, can be attractive to a foreigner.

No taxation, hard currency payment, and free food and housing, allow foreigners to save money. School teachers from Sri Lanka will drop their books and take up a mop to work as maids in the Kingdom. Pakistani university graduates will work as typists to earn hard currency. As a rule, Asians earn 8 to 10 times what they would at home. Europeans and North Americans earn lower multiples, but have still been doing well.

These generous salaries have been seriously eroded as the oil revenue crunch has hit Saudi economic activity. Most firms find the easiest way to cut expenses is arbitrarily to lower employee salaries. Few employees quit when faced with the option of an illegal, but nonetheless immediate termination of contract, or acceptance of a pay cut.

Because of this, many salaries have declined by more than 50 per cent over the past few years. Often this is done by hiring different nationalities. The Indians and Pakistanis who earn SR500 per month as street cleaners, are being replaced by Sri Lankans and Bangladeshis who get paid SR300 per month. Thais and Indonesians undercut Filipinos. Britons replace Swiss and Americans.

While salaries decline, labour abuse has become more common. The problem starts at home where prospective workers make illegal payments to "fixers" who promise them jobs in the kingdom. The payments often top $1,000, and force workers to mortgage or sell their homes and farms. They then spend their first months on the job paying the debt. In many cases, the labour agent exaggerates salaries and benefits.

When the workers arrive in the Kingdom, their Saudi sponsor presents them with an ultimatum: accept a large pay cut, or get on the next plane home. Most workers cave in because they have loans to repay.

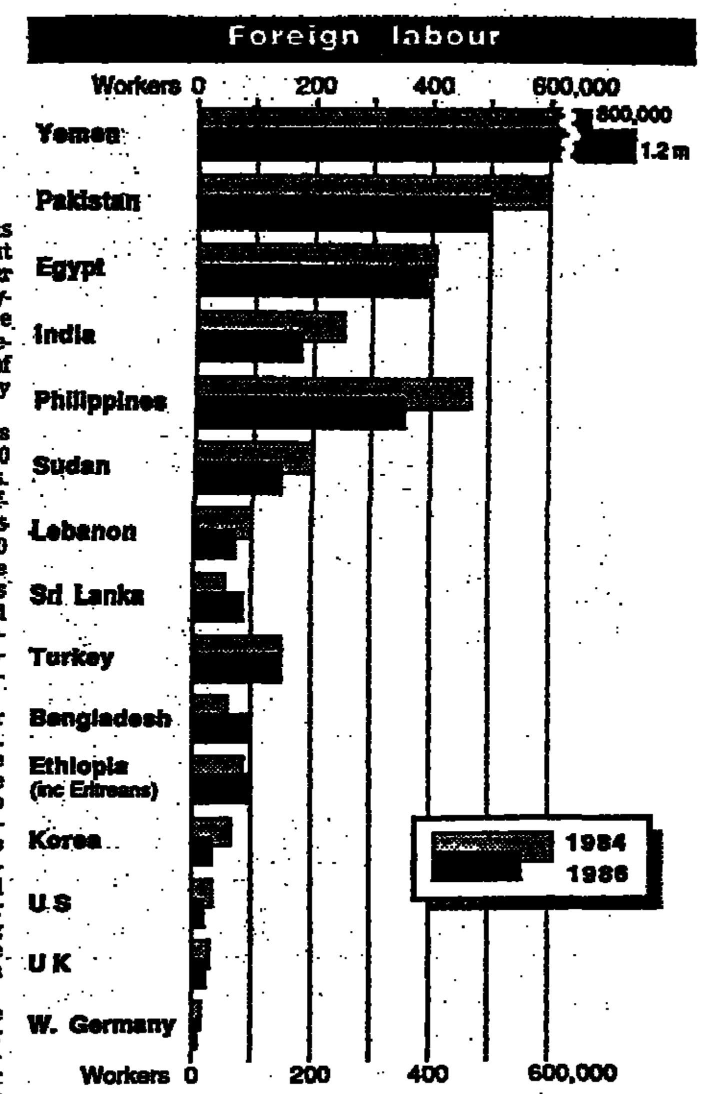
Other problems arise due to late or non-payment of salaries. Many labour exporting countries are too afraid of rocking the boat adequately to represent their nationals, or their disputes drag on for months as workers scrape by on handouts and bit work. This is disheartening for foreigners, because the Saudi labour law is actually more progressive than similar laws in many developed countries. The problem is that the courts are slow, and usually conducted in Arabic.

Some countries have taken steps to protect at least some of their nationals. Alarmed by non-payment and sexual abuse of its maids, the Philippines in February passed a law that Filipinas would no longer be permitted to go abroad to work as domestic servants.

While hordes of foreign women are imported to work, Saudi women remain seriously under-employed. The only job available for thousands of university-educated women is school teaching. A few firms employ women, but only with great difficulty.

Ironically, when the fourth five year plan was unveiled in 1985, the Government predicted that the number of foreigners would fall by 600,000. So far, the numbers have declined only slightly. Construction workers have left, but they have been replaced by armies of sweepers and maintenance men, while the number of domestic servants has increased.

Finn Barre



Source: FT estimates

Retail trends

Consumers count the cost

SAUDI CONSUMERS received bad news this January when the government announced that it was increasing customs duties on most imports from 12 per cent to 20 per cent to bolster government revenues.

Coupled with the continued weakness of the Saudi riyal, most thought that consumer spending, which had only begun to recover in late 1986, would again weaken. However, on the evidence so far, the pundits are apparently being proved wrong.

In the souk and the Kingdom's large shopping malls, there is a guarded optimism. "I don't expect consumer buying ever to return to what it was like during the boom," noted one storeowner. "However, people are beginning to spend more money now. There's more confidence in the economy."

Likewise, many merchants are taking a wait and see attitude on the impact of higher tariffs. Although many companies immediately passed on the increase to consumers, others have had little choice but to take part of the brunt themselves in the form of lower profit margins. "It's still too early to say what effect the new duties have," said one car dealer, predicting a gradual increase of prices as pre-increase stocks run down.

Cautious bullishness in the Saudi consumer market has also come despite the continued weakness of the riyal which is pegged to the dollar. Against most major European currencies and the Japanese yen, the riyal has depreciated by 40 per cent or more since late 1986. The lower riyal has translated into higher prices for Saudi consumers.

Still, most of the sting of currency fluctuations has again seemingly been taken by merchants who have been forced to accept lower profit margins.

No one expects a return to the boom years, but there are signs of the market normalising

There was room for manoeuvre. Many had kept their margins at more than 20 per cent, a holdover from the early boom days when consumer goods were relatively scarce. Also keeping prices steady has been the steady substitution of more expensive Japanese and European goods with cheaper items from South Korea, China, Thailand and Eastern Europe.

Despite declining oil revenues and the resultant economic restructuring, Saudi consumers have largely been protected from decreases in disposable income by generous government subsidies (though the Kingdom's sizeable expatriate population has seen a steady erosion of its purchasing power since 1983). As a result, the local consumer market has experienced some contraction but not a major crash.

The Saudi market has, of course, changed dramatically in recent years. Mirroring the general restructuring brought by declining oil revenues, imports have fallen considerably. According to figures compiled by the Saudi Arabian Monetary Agency (Sama), imports of all goods fell 27 per cent during the fiscal year 1985-1986, the last year for which figures are available.

The agency attributed the fall to the decrease in government expenditure, the completion of the country's infrastructure, as well as an increase in the Kingdom's industrial and agricultural production.

Despite the riyal's link with the dollar, Sama reported that all of Saudi Arabia's six leading trade partners — Japan the US, West Germany, France, Italy and the UK — suffered declines during the year, ranging from 24 per cent to 35 per cent.

No one expects a return to the boom years. But there are signs that a normalisation in consumer patterns is already occuring. For example, sales of Japanese vehicles in the Kingdom rose 42 per cent in 1987, despite the strong yen. According to figures released by the Japanese embassy, 107,717 units were sold last year, up from 75,821 in 1986. The surge in Japanese vehicle exports was led by increased sales of light pick-up trucks and other commercial vehicles, while sales of passenger cars lagged behind.

Dealers were also quick to point out that if the yen had showed less strength during the year, sales would have been substantially better. "I am sure that if the yen's value had remained as before, our sales would have been between 20-30 per cent higher than they had been in the last two years," said one dealer. "It now seems that the yen is finally stabilizing at the present level of between 125-130 yen to the dollar and we hope that it won't appreciate further."

Despite increased sales in 1987, the Saudi vehicle market is still much lower than its peak of just two years ago when nearly 200,000 Japanese vehicles were sold. And when compared with 1982's figure of 387,518 units sold, 1987's figure seems puny indeed.

However, there is the growing realisation that the Saudi consumer is changing just as the economy is.

Michael Andrews

Learning to live with less

Continued from p1

tional system of consultation and patronage — exercised through the daily majlis, or audience — is no longer adequate to satisfy.

This is not a matter of politics (many Saudis profess to believe that any precipitate move towards democracy would be unnecessarily disruptive) so much as of a perceived need for a more formalised input by specific groups into the decision-making process. Businessmen, for example, complain that their voice too often goes unheeded in Government counsels; other white-collar groups say they would like to be able to set up elective professional associations like ones that exist in countries such as Jordan.

"The Government has nothing to be afraid of in easing up a little," says one leading member of the educated classes in Jeddah.

But the most obvious and immediate set of dilemmas facing the Government concerns the economy, which is now shrinking for the fifth year in succession and, given the current chronic weakness in oil prices, has little immediate prospect of renewed growth.

The problem is not a lack of resources. Far from it: Saudi Arabia is still the premier oil power, possessing 25 per cent of the world's proven crude reserves. It is more a question — or a series of questions — about economic management within the constraints imposed on the Kingdom by a relatively low level of oil revenues and a still-heavy public sector appetite for funds. The issue is slowly but steadily coming to seem acute as market analysts postpone the day when they expect a major recovery in oil prices.

After the big change in the world oil market in the early 1980s, the Saudi Government — which has always acted as the motor of the economy by recycling oil revenues to construct the Kingdom's impressive infrastructure and provide a lavish range of services for its citizens — has made strenuous efforts to cut spending. It has slashed allocations for new projects, cut its wage bill and scaled down some subsidies.

At the same time, it has tried to cushion the impact of falling oil revenues on ordinary Saudis by drawing down on the foreign reserves it built up in the 1970s and injecting them into the economy, and attempted to persuade the private sector to play more of an independent role in the economy.

The message the authorities are now hesitantly trying to put across is that such policies can not provide an indefinite panacea. The Government is still cutting expenditure; and its foreign reserves are only about half of what they were, and are thus yielding diminishing investment income.

The private sector has been reluctant to take up the intiative — partly because of what it says is an excess of bureaucratic red tape, partly because it can often earn better returns by investing outside the Kingdom than in it, and partly because the area of industrial activity in which Saudi Arabia has successfully exploited its comparative advantage, petrochemicals, remains largely a public sector preserve.

Faced with the possibility that the Gulf oil producers may not be fully back in control of the world market until the late 1990s, the Government has turned its attention to raising more revenues to tide it over, tinkering with the welfare state, and trying to rationalise and broaden the base of the all-important oil industry. None of this is as simple as it sounds.

This year's budget, announced on December 31, was accompanied by the reintroduction of an income tax on foreign workers in the Kingdom and a number of other revenue-raisers such as surcharges for utilities and a tax on real estate transfers.

It was swiftly followed by vehement protests, especially from the business community which feared losing vital expatriate expertise, and the tax and many of the fees were withdrawn, leaving the Government relying on increased customs tariffs and a planned bond issue to fill a large proportion of this year's budget deficit.

A number of questions have been raised by this debacle, of which the most obvious concerns an incipient disparity between the expectations of ordinary Saudis and the state's ability to provide. The Government would undoubtedly have helped its case if it had adequately prepared the ground for the tax and fee measures by preaching the need for further belt-tightening.

Equally, problems can be foreseen in adjusting Saudis' employment expectations. Time was when any Saudi could be guaranteed the pick of well-paid jobs in the civil service on emerging from the education system. But times have changed. This year, King Fahd imposed a freeze on all new civil service appointments, and the labour market in general has become a good deal more selective, for all the authorities' efforts to ease out foreigners and replace them with Saudis.

As a leading Saudi academic put it: "We are suffering from the generation of the oil boom: the students who studied in the late 1970s, saw fortunes being made by buying and selling worthless pieces of land and had no respect for the teacher sweating in front of them. These people are the biggest weakness in our economy."

Bridging the gap between expectation and reality is an admittedly difficult enterprise for the authorities — implying as it does a modification of the whole rationale on which the Government's relationship with its people has been based since the oil bonanza began. But with the prospect of what promises to be a a protracted period of relatively modest revenues for Saudi Arabia, it is a subject of which we are undoubtedly going to hear a lot more.